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Nakasone Stresses Need for Japanese Military Buildup

By Steve Lohr
New York Times Service

TOKYO — The new Japanese prime minister says the country has to strengthen its military position to "uphold unity and cooperation with the United States and the free nations of Europe."

Speaking Saturday at his first news conference as prime minister, Yasuhiro Nakasone said Japan's military programs "have not been adequate" and stressed the need to "defend our country on our own."

Previous prime ministers have not been so critical in public of Japanese military programs as Mr. Nakasone was Saturday.

A decision by the Japanese cabinet in 1976 has limited military outlays to less than 1 percent of the gross national product. Asked about this Saturday, the prime minister, a former head of the Defense Agency, stopped short of promising to observe this limit.

Mr. Nakasone said he would "like to respect the cabinet decision," but noted that doing so would depend on the growth of the Japanese economy.

Military spending is a contentious issue in U.S.-Japanese relations. Japan, which has the second largest economy in the noncommunist world, is regarded by U.S. government officials and some members of Congress as not contributing enough to the strategic security of the Western alliance.

Compared less than 1 percent for Japan, the United States spends 6 percent of its GNP on its armed forces. Nearly all North Atlantic Treaty Organization countries spend a greater percentage of their economic output on their armed forces than does Japan.

Mr. Nakasone held his news conference after he and his cabinet were formally installed in ceremonies before Emperor Hirohito at the Imperial Palace. He said President Ronald Reagan had telephoned congratulations to him soon after the installation and had invited him to visit the United States.

At the news conference, Mr. Nakasone said: "I believe that our country's defense efforts have not been adequate. And I understand the argument put forward by the U.S. and its European allies that Japan should increase its military spending now that it has become a great economic power."

In the 1946 constitution, adopted while the nation was under American occupation, Japan renounced war "forever" and pledged that it would not maintain any form of war potential.

The constitutional provision subsequently was interpreted as permitting the formation of "self-defense forces," and Japan now has approximately 240,000 personnel in its three services. Because of the constitutional limitation, these forces are barred from having any weapons designed for offensive purposes.

In his news conference, Mr. Nakasone indicated that he thought a stronger Japanese defense stance was advisable because it was in Japan's self-interest, not because of pressure from Washington.

Asked whether he anticipated increased U.S. pressure to raise military spending because of his somewhat "hawkish" reputation, the new prime minister replied: "I do not think so. It is quite natural that we should defend our land by ourselves."

Still, many officials doubt that Japan's recent military buildup will accelerate under Mr. Nakasone. During the economic upsurge of the 1970s, Japanese military spending rose by an average of 7 to 8 percent a year, well ahead of the increases for NATO nations. On the basis of its military outlays, Japan is the world's eighth-ranking military power.

But the country is in the midst of a fiscal austerity program to reduce government budget deficits, a policy Mr. Nakasone unequivocally endorses. Indeed, it seems that continued annual increases of 7 percent or so may be difficult to achieve at a time when the overall budget is shrinking, as is planned for next year, by 5 percent.

Thus, it may be a triumph for Mr. Nakasone if he can simply maintain the recent pace of increases in military spending, analysts here say.

The Associated Press

Prime Minister Yasuhiro Nakasone, bottom center, posed with members of his cabinet at his official Tokyo residence after being inaugurated by Emperor Hirohito. On the left is Mitsuo Setoyama, the education minister, and on the right Kunikichi Saito, director-general of the Administrative Management Agency. Other ministers are, from left, Hyosuke Niwa, state minister; Akira Hatano, justice minister; Yoshiro Hayashi, health and welfare minister; Noboru Takeshita, finance minister; Hideo Utsumi, construction minister; and Shintaro Abe, foreign minister.

EC Delegates Delay Final GATT Accord Over Farm Subsidies

By Axel Krause
International Herald Tribune

GENEVA — Major industrialized nations, including the United States, and developing nations reached a broad tentative agreement Sunday to halt growing protectionism in agriculture and industry, U.S. and EC sources said. But the European Community, they said, threatened to block accord because of it opposes provisions on farm export subsidies.

The agreement emerged during a trade conference of 88 nations that began Wednesday in Geneva and had been scheduled to end Saturday. The meeting evolved Friday into marathon negotiations among about a dozen key participants who were trying to break deadlocks on proposals for trade liberalization that would affect agriculture and industry.

At about midnight Sunday, conference sources said that if the deadlock was not resolved, the conference would fail. "If we don't get the agreement, everything will become unraveled," a senior Canadian official said.

"The United States can sign the document as it stands right now," a senior U.S. official said Sunday, referring to a draft agreement that most of the negotiating group had agreed upon.

Delicate talks were continuing within the group Sunday evening, and the U.S. official described the situation as "very explosive."

The official, who did not want to be identified, said he would not rule out a failure of the conference. He said that without EC agreement on subsidies, there could be no deal linking settlement of all the issues, including trade in industrial products and services.

In addition to the EC, the countries participating in the negotiating group are the United States, Japan, Switzerland, India, Brazil, Pakistan, Colombia, the Philippines, Argentina, Australia and New Zealand.

The negotiating group is led by Allan MacEachen, Canada's deputy prime minister. Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade, the agency sponsoring the conference, attended the sessions.

Australia appeared Sunday night to be dissociating itself from the overall agreement, saying that the trade liberalization commitments were weak and ineffective.

J.D. Anthony, deputy prime minister and trade minister, said in an interview Saturday that "as far as I am concerned, I have been disappointed."

"We seem to have drawn to a standstill," the Australian said, "and in the final analysis it seems that those people who desperately want to take home a piece of paper have been prepared to compromise with the EC on almost everything."

The Australian official also warned that EC resistance to trade liberalization in agriculture could "start a trade war" with the EC on subsidized agricultural products.

"I think that is tragic, sad, but I think it is the inevitable consequence of the EC being unprepared to do anything in regard to subsidies."

Sir Roy Denman, the EC negotiator, said Sunday that substantial progress had been made in the group's talks, but that the participants "were not yet before an agreed package."

Sir Roy termed as "a silly point of view" widespread assertions by some delegates that the EC was "the villain."

Reiterating the EC stand that the community would not undertake new commitments on its farm export subsidies, Sir Roy said he hoped the EC's trading partners would endorse a "realistic" trade agreement. He emphasized that the EC had backed U.S. proposals on other issues.

Specifically, the EC's resistance stemmed from a phrase in the draft document saying that the 88 parties in GATT would "bring agriculture more fully into the multilateral trading system," which is primarily industrial.

The document also incorporates a phrase committing GATT members to "seek to bring export competition under greater discipline." The EC views that reference as a direct threat to its Common Agricultural Policy.

The agreements reached for the draft document by the main participants in the negotiating group

(Continued on Page 2, Col. 5)

The Associated Press

Danielle and François Mitterrand on Sunday toured Agra, the city of the Taj Mahal, after receiving the traditional "tilak" marks on their foreheads. The tilak is a sign of greeting.

France and India Sign Nuclear Fuel Accord

Reuters

NEW DELHI — President François Mitterrand started talks with Prime Minister Indira Gandhi Saturday after his country and India signed an agreement on the supply of nuclear fuel for an American-built atomic power plant near Bombay.

Mr. Mitterrand, who is seeking special commercial and political ties with the developing world, flew in from Egypt for a four-day visit.

In an airport speech, he stressed admiration for India's nonaligned foreign policy and said that France and India were anxious that the world "should escape from the grip of opposing military blocs."

A cloud over Mr. Mitterrand's visit lifted when the two countries announced an agreement, only hours before his arrival, under which France will take over a U.S. contract for uranium supplies to the Tarapur power plant.

French insistence on strict safeguards had blocked agreement since Paris offered to take over the 19-year-old contract four months ago.

■ U.S. Role Was Abrogated

William Claiborne of The Washington Post reported from New Delhi:

The nuclear-supply accord, signed by the French ambassador, André Ross, and the chairman of India's Atomic Energy Commission, Homi N. Sethna, effectively transfers to France an obligation undertaken by the United States but abrogated by the 1978 U.S. Nuclear Nonproliferation Act.

While India accepts international inspection of the U.S.-built Tarapur plant, it does not agree to the overall controls required by the 1978 act.

Mr. Mitterrand was understood to have intervened personally in the difficult French-Indian negotiations on supplying the enriched uranium for the Tarapur reactor, which is Bombay's primary source of electricity. The plant has been running at 50-percent capacity while the dispute over controls on reprocessing spent fuel dragged on.

The French reportedly were eager to resolve the impasse quickly so that Mr. Mitterrand could cultivate Mrs. Gandhi's government and pursue arms contracts as well as deals for the transfer of technology.

A spokesman for the Ministry of External Affairs indicated that the agreement fell within the 1963 U.S.-Indian accord, which India has insisted upon. U.S. abandonment of that agreement triggered a dispute that soured relations between Washington and New Delhi until Mrs. Gandhi and President Ronald Reagan agreed last July to transfer the U.S. obligation to France.

As one of 15 member countries of the nuclear suppliers' group, or the "London Club," France is committed to impose safeguards on nuclear fuel reprocessing. These include the "pursuit" clause, which would extend the International Atomic Energy Agency safeguards not only to Tarapur, but to any plant using its by-products, and the "perpetuity" clause, which would apply the safeguards beyond the 1993 expiration of the U.S.-Indian agreement.

India has said both safeguard clauses are unacceptable and has threatened to scrap the U.S. agreement and reprocess spent fuel anyway, using the derived plutonium for operating Tarapur.

High Tides Flood Venice

The Associated Press

VENICE — High tides flooded Venice on Sunday, pouring into homes, stores and hotels in low-lying areas and covering St. Mark's Square. It was the fourth flood this month.

Solidarity Calls Off Protest Plans, Citing Authorities' Peace Gestures

By John Kifner
New York Times Service

WARSAW — Underground leaders of Poland's banned Solidarity union, declaring that recent actions by the government had created a more conciliatory atmosphere, have called off a series of protest demonstrations planned for next month.

A series of communiqués from the union's Temporary Coordinating Committee, which became available to foreign journalists Saturday, cited the following as peace gestures by the authorities: the release of Lech Walesa, the interned union leader; the establishment of a date for a visit by Pope John Paul II, and the indications by government officials that they intend to lift martial law at a parliament session Dec. 13.

"All this creates a completely new political situation," one of the bulletins said. "It allows the hope for at least some type of truce between the authorities and the society. In this situation we have decided to cancel the December protest actions called for in the announcement of Oct. 20."

The Polish government declined to respond formally to the statement. A spokesman, Jerzy Urban, said, "The government only takes a stand on important issues and this one is of no significance whatsoever."

He said the message from the underground was merely "the make-believe activities of a small group of people who are of no importance any more and have no influence on the course of events in this country."

The demonstrations had been called to begin Dec. 13, the anniversary of the imposition of martial law, which ended the 15-month heyday of Solidarity. The protests had been part of an underground Solidarity plan to build up to a general strike in the spring.

However, the first stage of the program, an 8-hour national strike and demonstrations called for Nov. 10, failed to materialize in the face of a well-organized government campaign of highly visible gestures, intimidation in the factories and police saturation on the street.

The tentative strategy that appears to be emerging now rests on the hope that the authorities, having regained control, would now work with the Roman Catholic Church to provide a degree of limited freedom and maneuvering room to cheer up the sullen populace.

Solidarity's supporters are hoping to operate under this blanket for small gains, particularly amnesty for their interned and arrested activists.

This line of thought was explored somewhat in another underground broadside — one from a Warsaw Solidarity affiliate called the Social Resistance Committee — obtained earlier last week.

The broadside, printed in Solidarity's *Mazowsze Weekly*, suggested that the role of Archbishop Jozef Glemp in reaching a rapprochement with the authorities was politically complex. On one hand, it said, the church had "acted hand in hand with the regime" in thwarting the Solidarity demonstrations, but on the other perhaps the church was trying to establish some "new legal political platform."

"A lot seems to indicate that these moves are aimed at creating for the regime the room for a withdrawal maneuver while saving face from its current political line, which is devoid of perspective," the paper said, "and make it possible for them to present the present necessary concessions for the society as proofs of strength and good will on the part of the authorities."

It added, "If the church's reckoning proves to be correct, there may open a chance for conducting a kind of opposition activities within the framework of legal structures."

Whether this rationale will be borne out remains to be seen. The authorities have made it clear they have little patience with dissent and have buttressed their position with a series of new laws that will give the government stricter control even when martial law is lifted.

■ Airline Hijacking Thwarted

A Hungarian airliner left Warsaw for Budapest Sunday, about 12 hours after the Polish security police foiled an attempt by an armed man to hijack it to West Berlin Saturday, officials at Okecie International Airport in Warsaw told Reuters.

Airport sources said the hijacker, a young man in what appeared to be a Polish Army uniform, had boarded the Malev plane during a stopover on a flight from Leningrad to Budapest.

Nine Polish planes have been hijacked to West Berlin since 1969, three since the declaration of martial law last December.

Arafat-Assad Dispute Continues

By Loren Jenkins
Washington Post Service

DAMASCUS — Yasser Arafat, the leader of the Palestine Liberation Organization, left here during the weekend after the collapse of efforts to bring him together with President Hafez al-Assad of Syria to end a dispute that has hampered the PLO's efforts to formulate a new policy.

Mr. Arafat, who had come initially for a meeting of the PLO's 66-member central council, left angrily for Amman, Jordan, on Saturday after having delayed his departure for four hours waiting for an invitation to meet with Mr. Assad.

That Mr. Arafat went to Amman from Damascus to renew talks about relations with Jordan's King Hussein, who has been a political enemy of Mr. Assad, could worsen the dispute with the PLO leader.

That Mr. Arafat's trip to Amman was taking place at the same time as that of Philip C. Habib, the special U.S. envoy, could heighten Mr. Assad's suspicions of the PLO leader. U.S. officials said the timing was a coincidence.

Senior PLO officials close to Mr. Assad had worked hard for weeks to persuade him and Mr. Arafat to meet on their dispute, which has threatened to sabotage the PLO's search for a new strategy following its expulsion from Beirut.

But neither leader was prepared to accept the other's conditions for a meeting, according to informed PLO sources. The Palestinian sources tried Saturday to play down the significance of the dispute.

According to these sources, Mr. Assad wanted Mr. Arafat to openly praise Syrian support of the PLO and to withdraw Mr. Arafat's suggestions that the Syrians let the PLO down during the siege of West Beirut by the Israeli Army.

Mr. Arafat, these sources indicated, wanted Mr. Assad to treat him as a head of state when he visited Syria, just as other Arab leaders treat him when he visits their countries.

Mr. Assad's snub of Mr. Arafat was the latest in a series since the end of the siege of Beirut last summer.

At the Arab summit conference in Fez, Morocco, in September, the two leaders hardly talked to each other. Two weeks ago at Leonid I. Brezhnev's funeral in Moscow, President Ali Nasser Mohammed of South Yemen tried to bring them together, but again Mr. As-

(Continued on Page 2, Col. 1)

In Rural Kenya, the Trappings of Prosperity

2 Farmers Build Profits on Government Incentives, Personal Loans, Initiative

By Leon Dash
Washington Post Service

KILIBWONI, Kenya — This village in the Nandi Hills and the people I knew 13 years ago when I lived here as a Peace Corps volunteer have changed.

Richard Arap Mwei now lives in a five-room, red-brick house instead of the traditional round mud-and-thatch hut. A short distance away, Cleophas Arap Moro has three workmen hand-chipping stone blocks into bricks for the facade of his new house. And when I visited them last month, both men slaughtered goats to honor my return. There is no more certain sign of prosperity in rural Kenya than platters filled with hot mounds of freshly roasted goat meat, to be washed down with curdled mursik, a tasty milk drink of yogurt texture.

I went back to a village I knew well to get a view of the changes wrought by a decade of economic hard times and political turmoil for much of the continent. I wanted to know whether serious efforts toward development had been made. Fully aware that the visit would produce nothing more than a snapshot of one place at a given time, I thought I could nonetheless learn something about rural life in Africa in microcosm.

Kenya is one of the African countries Westerners know most about. Its game parks and beautiful beaches, its relatively stable, mixed economy and political institutions and its history of anti-colonial struggle has made it a focal point of international attention and help. And a few months ago it made headlines when air force officers and enlisted men attempted a coup and caused international confidence in Kenya to waver.

RETURN TO KILIBWONI

First of three articles.

In the midst of the lively male banter at Richard's party — the women, as is the custom, ate separately in the kitchen — I learned that the price of a goat had more than quadrupled since 1969 from $7 to $30.

Now $30 is a considerable sum of money in rural Kenya. In 1969 it could pay two-thirds of a year's tuition for a high school student. Even with the rise in my friends' affluence, it is still a large sum compared with Richard's monthly take-home pay of $53.80 from his job as Kilibwoni's cattle-dip clerk and Cleophas's monthly salary of $119 as Kilibwoni's subchief.

In 1969, Richard was working as a house cleaner and clothes washer for $11.50 a month, and Cleophas was clerk to the chief, at a salary of $44.30.

In Kilibwoni these days, signs of well-being and progress are everywhere. Every farm has acres of eight-foot, high-yield hybrid. Planting of the expensive hybrid corn was far from universal in 1969. Another startling change is the profusion of quality dairy cows that are replacing the traditional humped-back zebus.

Significantly, most of the development has grown directly out of Kenya's policy of paying profitable prices to its farmers — a prosperity that has produced development incentive. Kenya's government learned just how sensitive its farmers are to price fluctuations when it set the price for corn too low and production plummeted in the late 1970s from national self-sufficiency to deficit.

It was a costly lesson, compounded by spotty droughts and planning mismanagement. Kenya ended up spending millions of dollars of dwindling foreign exchange reserves in 1980 to import corn. Kenyans' key food staple, was eaten mainly by the urban population, only 15 percent of almost 18 million people, while most of the country's 1.7 million small farmers grew corn for home consumption only.

But as government-determined prices on food crops have gone up, so has production, making Kenya one of a few black African countries today capable of self-sufficiency in food.

Kenya's mixed-economy approach, capitalist in its underpinnings with heavy government investment and direction, is identical to its often cited successful West African counterpart, the Ivory Coast. Both countries, however, in recent years have been severely hurt by sharp drops in world prices for their primary exports — tea and coffee for Kenya, coffee and cocoa for the Ivory Coast.

For black African countries as a whole, the World Bank and numerous development economists have forecast a gloomy economic picture. The few African countries that have had substantial development — Kenya, Ivory Coast, Cameroon, Malawi and Zimbabwe — will suffer during the world recession, but they appear to have a greater cushion from which to bounce back than most of their neighbors.

Late last month, President Daniel Arap Moi announced that the government would cut back sharply on what heretofore were viewed as necessary expenditures. Kenya's farmers, in the meantime, are to receive additional cash bonuses for increasing production and timely repayment of government loans.

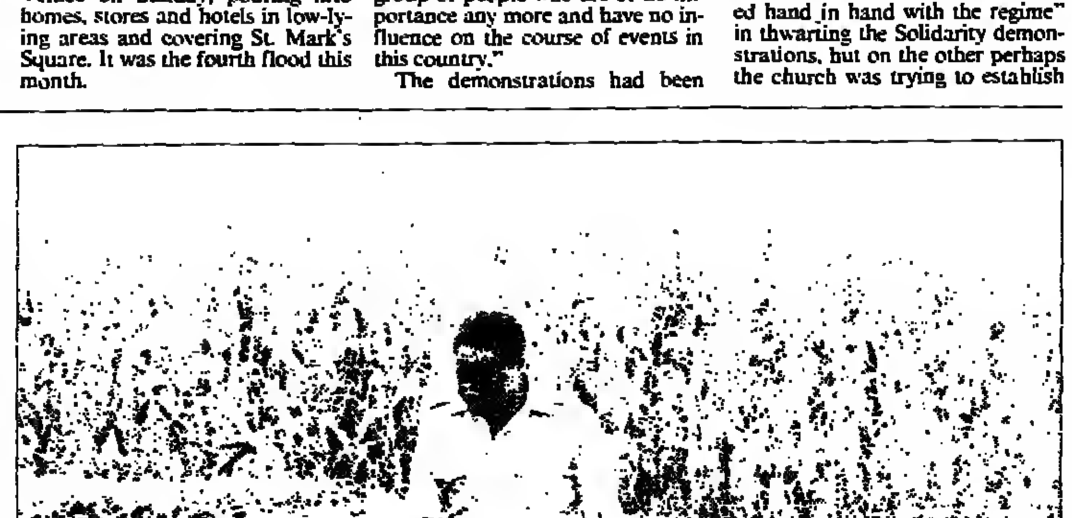
In 1969, neither Richard nor Cleophas had the credit standing to qualify for small farmer loans. Richard had no land. Cleophas had a virtually bare shop at Kilibwoni's trading center and eight acres of land inherited from his father. But neither Cleophas nor anyone else in Kilibwoni had title deeds to use as loan collateral. Today, for land that has been paid off, everyone has a title deed.

I was living well on a Peace Corps living allowance of $104 a month. Halfway through 1969, Richard borrowed $71, half as a down payment on two and a half acres of land and half to buy corn and fertilizer. Cleophas borrowed $142 to buy goods for his shop.

Each repaid me in full in small monthly amounts, and the absence of any interest on the loans accrued to them as profit, which they immediately plowed back into more land or more goods.

"I was never able to accumulate enough money to buy even one acre of land at one time before the loan," Richard said. One acre of land in 1969 sold for a high of $71 and goes for as high as $762 today.

(Continued on Page 2, Col. 5)



Leon Dash/The Washington Post

Cleophas Arap Moro inspects tea bushes near Kilibwoni. In the background is hybrid corn.

INSIDE

Nasser, Ben-Gurion Considered Talks in '55

American Quaker Says Egyptian Asked Him to Undertake Secret Mission

By Bernard Gwertzman
New York Times Service

WASHINGTON — In the spring of 1955, the Egyptian government asked a prominent American Quaker to undertake a secret diplomatic assignment intended to bring about a political settlement with Israel.

The American who undertook the mission, Elmore Jackson, says in a newly completed, unpublished account of his efforts that he was making progress toward setting up a meeting of senior Egyptian and Israeli officials, but a sudden outbreak of fighting between Israelis and Palestinians in the Gaza Strip caused the mission to fail.

Mr. Jackson had the backing of the U.S. government and the personal backing of Gamal Abdel Nasser, the Egyptian prime minister; Moshe Sharett, the acting Israeli prime minister, and David Ben-Gurion, who was serving as defense minister but was the principal political figure in Israel.

A State Department official said last week that departmental records confirmed that Mr. Jackson had been on the mission.

Mr. Jackson, now 72, said in a telephone interview from his home in Newtown, Pennsylvania, that he was making the details of his mission public in part to disclose Nasser's initiation of the effort.

He said he had been encouraged by Egyptian officials to make his story known to demonstrate to Arabs that President Hosni Mubarak, in pursuing peace in the Middle East, was not just emulating President Anwar Sadat, who was assassinated by Moslem extremists last year, but was also following in Nasser's footsteps.

"Nasser had a unique position in the Arab world," he said in a written summary of his mission. "He was a symbol of Arab nationalism, and the Egyptian revolution had stirred deep emotions throughout the Arab world. The fact that Nasser explored seriously the possibilities of a peace settlement with Israel — before he turned to Eastern Europe for arms supply — should be of major interest to all those who seek an end to the cycles of violence which periodically convulse the Middle East."

Mr. Jackson said that "it may come as a surprise that Nasser — the vigorous apostle of Arab nationalism — should have taken such an initiative."

"But Nasser was under heavy pressure from his generals for a major new arms supply," he said. "He feared his arms negotiations with the United States were going nowhere. If he could get a basic settlement with Israel — or at least some acceptable modus vivendi — he could avoid having to turn to what he considered to be his last major option — an arms supply agreement with Eastern Europe."

Mr. Jackson was, in 1955, the Quakers' chief representative at the United Nations, and he later worked for the State Department.

Using commercial airliners and traveling alone, Mr. Jackson made three round trips between Egypt and Israel, changing planes in Cyprus or Greece each time. He met with Nasser, Mr. Sharett and Ben-Gurion each time.

Ben-Gurion, according to Mr. Jackson's account, told Mr. Jackson during their first meeting that he would go anywhere to meet Nasser.

"Nasser is a decent fellow who has the interest of his people genuinely at heart," Ben-Gurion reportedly said.

Nasser, according to Mr. Jackson, was initially "intrigued by the idea" but in the end decided against a face-to-face meeting because of the Israeli retaliatory raid against Palestinian guerrillas in the Gaza strip, a raid that the Israelis had at first canceled in deference to the Jackson mission.

Nasser told Mr. Jackson, according to the account, that he needed a longer "period of calm." The Egyptian leader then agreed to accept arms from Czechoslovakia, provoking a storm in the region and in Europe.

Fourteen months after the Jackson mission failed, war broke out again in the Middle East, with an attack on Egypt by Britain, France and Israel. They were eventually forced to withdraw under pressure from the United States and the Soviet Union.

The Quakers were drawn into the peace efforts in 1955 at Nasser's initiative by Ahmed Hussein, the Egyptian ambassador to Washington, who was a personal friend of Nasser, Mr. Jackson said.

An initial meeting at the Egyptian Embassy in Washington on April 12 with some leading Quaker leaders was followed by a session in New York on July 15 with Foreign Minister Mahmoud Fawzi. In between, the Quakers consulted with the State Department, which gave its approval.

Arriving in Israel on Aug. 9, 1955, Mr. Jackson met with Ben-Gurion, who he said was "at his philosophical and charismatic best."

"Our meeting closed with his saying he would go anywhere to talk to Prime Minister Nasser — even to Cairo," he said.

When told about Ben-Gurion's call for a meeting, Nasser "seemed initially to be intrigued with the idea," and they explored the place, timing and possible agenda, and whether progress would be "sufficient to permit him to carry other Arab states with him."

But after the Israeli attack in the Gaza Strip, Nasser told Mr. Jackson that the raid had been "sufficiently severe that a little time was needed for things to cool down."

Gamal Abdel Nasser

David Ben-Gurion

U.S. May Seek Change In Nuclear Test Pacts To Get On-Site Checks

By Judith Miller
New York Times Service

WASHINGTON — The Reagan administration is close to approving a proposal that would require on-site inspection as a condition for ratifying two treaties with the Soviet Union on underground nuclear testing, according to U.S. officials.

President Ronald Reagan has not made a final decision, they said. But there is now substantial agreement among officials working on the accords about the changes that the United States should propose to strengthen its ability to verify Soviet compliance.

Some supporters of the treaties, including Senator Charles H. Percy, Republican of Illinois, have urged the administration not to go forward. He has privately warned that insisting on such inspection might prompt the Soviet Union to reject the treaties.

The Threshold Test Ban Treaty, signed in 1974, and the Peaceful Nuclear Explosions Treaty, signed in 1976, limit underground tests — the only kind permitted — to 150 kilotons, or about 10 times the explosive power of the bomb dropped on Hiroshima. Neither accord has been sent to the Senate, where two-thirds of the chamber must approve of the accords before they are ratified and formally take effect.

Last July, the administration decided to set aside efforts to negotiate a comprehensive ban on nuclear testing until verification measures of these two treaties could be improved. Officials argued at that time that the United States could not adequately verify that the Soviet Union was complying with either agreement, and that the treaties should not be ratified until monitoring provisions had been upgraded.

Since then, an interagency working group, composed of officials from the State, Defense and Energy departments, the Arms Control and Disarmament Agency, and the National Security Council staff have been weighing two major proposals designed to improve confidence in the nation's ability to determine that Moscow is not exceeding the testing ceiling.

The officials said that most agencies had now agreed on a proposal that would require the United States and the Soviet Union to provide advance notice of any test larger than 75 kilotons, or half the explosive power permitted by the treaties. Only the Defense Department is said to be insisting that the threshold for on-site inspection be lower. The Pentagon is pressing for a 50-kiloton threshold.

This disagreement has delayed final approval of the modifications, officials noted.

Officials said that under the proposal being weighed, if the Soviet Union or the United States planned a test larger than 75 kilotons, the country planning the test would have to permit the other to collect geological samples from the test site. In addition, officials from the observing country would be permitted before the test to place or watch the installment of its own monitoring equipment at the site.

These changes would most substantially affect the Threshold Test Ban Treaty, which does not now permit any on-site inspection. The protocol of the treaty provides instead that once the accord is ratified, both countries shall provide the other with basic data about the geological composition of its testing sites and provide information about the yield of an actual test from a site. These data are intended to permit the United States to readjust its monitoring equipment outside the Soviet Union and better estimate the yield of Soviet tests.

But administration officials have said that these provisions are inadequate. The Soviet Union could misrepresent the data and the United States would not have independent means of determining their accuracy, they argue.

Despite War Cost, Iraq Pushes Development

Subsidies From Its Gulf Neighbors Help Baghdad as Oil Output Drops

By Drew Middleton
New York Times Service

BAGHDAD — A nation that proceeds with work on a subway system in its capital while locked in a long war with a revolutionary and populous neighbor might strike some as foolhardy. But work on the Baghdad subway — among other major development projects — is continuing here despite a war that is costing Iraq, according to foreign estimates, $600 million to $1 billion a year.

The construction of the subway system and development programs in the countryside testify to the resilience of an oil-based economy and the confidence of the government. The construction of schools and clinics, the development of irrigation projects and the building of factories and housing have continued.

Foreign diplomats estimate that since the war with Iran began in September 1980, Iraq's reserves have shrunk to $10 billion from $30 billion or $35 billion. The accuracy of all figures is in doubt, one foreign economics attaché noted, because each ministry keeps its own books and there is no overall financial statement.

Oil is the key to the economy. Production has dropped from the prewar figure of 3.4 million barrels a day to about 850,000 barrels. More than half the output moves by pipeline to Turkey, where it is shipped to Iraq's best customers, Italy, Brazil, France and countries of the Eastern bloc.

Exports would triple, diplomats said, if Syria allowed the reopening of the pipeline that runs through its territory to the Mediterranean. Efforts to induce Syria to do so reflect the intricacies of Arab politics. Saudi Arabia, diplomats said, is pushing Syria to reopen the line, but Syria is buying oil from Iran. If shipments from Iran end, diplomats predict, Syria is likely to reopen the pipeline.

The result would be a rapid improvement in Iraq's economic position, making it a better risk for foreign investors.

Saudi Arabia and the other Gulf countries have been subsidizing Iraq's war at the rate of about $1 billion a month. A large but unknown percentage of this money from some of the most stoutly anti-communist governments in the region has gone to pay the Soviet Union for arms.

The diplomatic consensus is that if Syria keeps the pipeline shut and the war goes on, Iraq will be forced to cut purchases abroad. Japan, West Germany and Turkey are major exporters to Iraq and all will be hit if, as President Saddam Hussein has predicted, some national spending has to be cut. Imports this year will probably total about $19 billion.

The government has been able to maintain the standard of living with some exceptions. Food prices have risen 30 percent since the start of the war, but prices of fuel, clothing and other necessities have risen only marginally, diplomats said.

Despite the war, foreign businessmen are showing confidence in Iraq's economy. The Baghdad Trade Fair, which opened Nov. 1, was attended by nearly 3,000 businessmen from 64 countries. The exhibits covered the political spectrum. The Palestine Liberation Organization was represented, as were the Soviet Union and companies from the United States.

At the other end of the economic scale, villagers find that prices for chickens and rice have risen but not steeply enough to affect the average household seriously. Food distributed by the state is relatively cheap, but when the buyer ventures into luxury items the price skyrockets.

Some foreign investors complain that since the start of the war they have had difficulty collecting costs arising from overruns in construction projects. A French company contracted to build the new Baghdad airport for about three-quarters of a billion dollars. The government paid the base cost but has not yet moved to pay an overrun cost of about $200 million, diplomatic sources said.

Baghdad is evidence of the government's willingness to proceed with construction projects. Three modern hotels have been built. Sewage disposal and water systems have been renovated. Roads and sidewalks have been improved. Much of this was in preparation for a summit meeting of the nonaligned nations. It had been scheduled to open in September but was canceled because of the war.

Esmat Sadat outside the courtroom before his hearing.

Esmat Sadat Declares Innocence At Hearing on Corruption Charges

Reuters

CAIRO — Esmat Sadat, at a court hearing Sunday, denied charges of widespread fraud that have been brought against him. "I am innocent," declared Mr. Sadat, the brother of the late Anwar Sadat. "They say I got rich through fraud. If the government can find any of these riches it can keep them."

Mr. Sadat was speaking to journalists who swarmed around the prisoners' enclosure in the High Court of Justice for an impromptu news conference, which temporarily halted the court proceedings.

Mr. Sadat, two of his wives and 15 children have been accused in connection with a series of swindles that netted millions of Egyptian pounds, largely from land and property deals. Commentators say the case is symptomatic of widespread graft that created new millionaires in the later years of Sadat's government.

The hearing Sunday was called to determine whether an order prohibiting Mr. Sadat and his family from leaving Egypt should remain in force. The ban on Mr. Sadat, four sons, a daughter and his two wives was upheld. The judges lifted the order for seven sons and three daughters.

NATO Missile Plans On Ministers' Agenda

Reuters

BRUSSELS — NATO defense ministers this week will reiterate their aim to start deploying Pershing-2 and cruise missiles by the end of next year if there is no arms control agreement with the Soviet Union by then, diplomats say.

The defense ministers are holding their regular autumn meeting here, confronted with a growing anti-nuclear weapons campaign that has spread to the United States.

NATO's European defense ministers, are to meet Monday, a day before the full nuclear planning group, and are expected to emphasize the important contribution that Western Europe makes to the alliance's global military effort.

The alliance is preparing for a test of nerves with the new Soviet leadership, which diplomats believe will step up efforts to prevent deployment of the U.S. missiles in Western Europe. These missiles would be able to reach the Soviet Union from bases in NATO countries.

The new Soviet party chief, Yuri V. Andropov, has already urged the West to delay deployment while the U.S.-Soviet talks to limit medium-range nuclear missiles continue in Geneva. Those talks have been going on for a year.

Diplomats said that Mr. Andropov made the plea when he met West Germany's foreign minister, Hans-Dietrich Genscher, at the funeral of President Leonid I. Brezhnev earlier this month in Moscow.

The diplomats said that the United States would urge the West Europeans to stand firm on NATO's decision of December 1979 to deploy the new weapons if the Soviet Union does not dismantle its existing missiles targeted on Western Europe.

Although nuclear issues are expected to dominate the four days of meetings, the strengthening of NATO's conventional forces is also high on the agenda, diplomats said.

NATO's top commander in Europe, General Bernard W. Rogers, has proposed that NATO make more use of new technology in conventional weapons to redress the East-West imbalance in nonnuclear forces.

General Rogers has said that such weapons could allow the alliance to reduce the number of its short-range nuclear arms.

He has been supported by Manfred Wörner, the West German defense minister. Mr. Wörner said in a report in June that 50 or 60 missiles armed with conventional warheads could achieve the same result as 20 to 25 nuclear weapons each carrying a 10-kiloton warhead.

The ministers are also expected to discuss greater burden-sharing within the alliance, as requested by the United States.

In case of an emergency in the Gulf, the U.S. Rapid Deployment Force is expected to have to draw heavily on noncombat troops and equipment stationed in Europe. In such an emergency, diplomats said, U.S. plans are for West Europeans to replace up to 80,000 U.S. servicemen involved in logistics work in Western Europe.

MX Basing Plan Does Not Violate Accords, U.S. Says

New York Times Service

WASHINGTON — The United States has rejected assertions made by Pravda, the Soviet party newspaper, that President Ronald Reagan's plan to deploy the MX missile would violate the accords limiting strategic nuclear arms.

John Hughes, a State Department spokesman, issued a detailed rebuttal Friday to the charge, saying it remained the policy of the United States to "take no action which would undercut existing arms control agreements as long as the Soviets show equal restraint."

"Moscow is wrong," said Richard N. Perle, assistant secretary of defense for international security policy.

The Pravda article Thursday, which was viewed as an authoritative response to President Reagan's MX basing plan, charged that the planned deployment "runs counter to one of the central provisions" of the first and second U.S.-Soviet strategic arms limitation treaties. The first accord expired in 1977, and the second was never ratified by the United States. But each side has said that it will abide by the second agreement as long as the other does.

Mr. Hughes said that Mr. Reagan's plan to place 100 MX missiles in a closely spaced basing design, known as "dense pack," was "fully consistent with this policy."

Arafat, Assad Fail to Meet

(Continued from Page 1)

sad refused, reportedly saying they could meet in Damascus.

The big problem underlining the dispute is Mr. Arafat's resentment of what he sees as Mr. Assad's effort to bend the PLO to make it serve Syrian, not Palestinian, interests.

Mr. Arafat's fear that Syria threatens the PLO's political independence led him to set up his political headquarters in Tunis, the seat of the Arab League, rather than Damascus, as Mr. Assad had wished, after the PLO left Beirut.

Mr. Assad saw Mr. Arafat's move to Tunis as an insult, according to Syrian officials.

"The problem is one of total mistrust between the two," said a PLO executive committee member who asked that his name not be used. "Arafat suspects Assad of trying to manipulate the PLO for Syrian ends, and Assad suspects Arafat of serving the interest of conservative Arab states that are eager to undermine his position."

The dispute has deep significance for the PLO's unity because of Syria's importance as a conduit for arms supplies to the PLO, because of its control of at least three of the eight guerrilla organizations that make up the PLO and because it has a great deal of influence on at least half of the PLO's 15 executive committee members who make their home in Damascus.

The split is a major factor in the organization's failure to schedule a meeting of the Palestine national council, its parliament in exile, that ultimately must give Mr. Arafat and the PLO leadership a mandate to pursue new diplomatic initiatives.

PLO members influenced by Mr. Assad want the national council meeting to be held in Damascus. Mr. Arafat insists that it meet in Tunis. As a compromise, he has indicated privately that he would be willing to hold a meeting in Algiers.

Copter Crash Kills 9 Indians

The Associated Press

NEW DELHI — An air force helicopter crashed while flying a routine mission in northeastern Mizoram state, killing all nine air force and army personnel aboard, the Defense Ministry reported Saturday.

Turks Step Up Contact With East Bloc States

By Marvine Howe
New York Times Service

ANKARA — The prime minister of Hungary spent three days in this NATO nation last week on a state visit intended to develop economic and cultural cooperation.

The prime minister, Gyorgy Lazar, whose visit ended Wednesday, received a warm ceremonial reception and held what were described as open and friendly talks with military leaders and business representatives.

Mr. Lazar's trip followed recent visits by Turkey's president, General Kenan Evren, to Bulgaria, Romania and Yugoslavia and precedes his tour to China next month. The Turkish foreign minister, Ilter Turkmen, is making an official visit to the Soviet Union.

Turkish government officials insist that these high-level exchanges with communist countries are merely a continuation of Turkey's "multidimensional" foreign policy and cannot be considered a deviation from its traditional Western alliances. Nevertheless, Turkish journalists have noted a decline in high-level visitors from the West since the Turkish armed forces seized power on Sept. 12, 1980.

In fact, there has been an increased sense of isolation in Turkey as relations with partners such as France, West Germany and the Netherlands have become strained, whether over human rights issues, trade or immigrant workers. Furthermore, already cool relations with Greece have deteriorated since Andreas Papandreou's Socialist government came to office last year.

Turkish politicians say privately that they hope relations with Western Europe will improve after the recent constitutional referendum, in which General Evren won a 91.3-percent endorsement as president.

General Evren has visited Pakistan and Kuwait in addition to the communist neighbors. But he has received no invitations to visit any Western allies, officials said. Officials in Ankara said there was no need for state visits to Western countries since there were "constant close technical contacts" through the North Atlantic Treaty Organization and European organizations.

However, some Western diplomats question the effect of what appears to be a courtship of Turkey by the communist countries, coinciding with an obviously cool shoulder from Europe. Some U.S. officials expressed concern over this in private, noting Turkey's strategic importance as the NATO member with the longest border on the Soviet Union.

The overtures from the communist countries are particularly interesting since the Turkish regime has clamped down on all leftist organizations.

Although Turkey has never formally accused any country of fomenting the widespread political terrorism that brought on the 1980 military intervention, officials often acknowledge privately that they suspect that the Soviet Union and Bulgaria had a hand in it.

"We want to increase the dialogue with communist countries because we must live with them in the region despite the differences in ideology, policies and approach as well as social and economic systems," a senior official said. "We can't change our geography and so we must adapt."

■ **Gromyko Welcomes Turkmen**

Mr. Turkmen arrived Sunday in Moscow and was met at the airport by his Soviet counterpart, Andrei A. Gromyko, The Associated Press reported, citing Tass.

Government Workers Demonstrate in Bern

Reuters

BERN — About 30,000 government employees marched through Bern Saturday, demonstrating for shorter working hours and salary increases in line with inflation, police said.

The demonstration, which a police spokesman said was the largest ever seen in the Swiss federal capital, was intended to back government proposals for a 42-hour week against what trade unions suspect is a move in parliament to veto the reduction for cost-cutting reasons when it is debated this week.

Farm Issue Blocks GATT

(Continued from Page 1)

covered the following key areas, conference sources said:

• The major GATT nations agreed on the language for a section in the text regarding a broad political commitment to halt growing protectionist practices, which are playing a role in slowing the world's $2-trillion annual trade volume.

The United States, Australia and other nations had previously referred to the need to obtain a commitment to policies of "standstill" and "rollback," aimed at dismantling protectionist practices. The compromise version commits signatories to refraining from "taking" or "maintaining" such practices.

• The agreement calls for a one-year study aimed at developing an improved, more efficient system of safeguards among GATT members, both importing and exporting nations. The safeguards are temporary legal measures that governments can take to protect their industries from foreign competition.

The study, which was backed by the United States, the EC and developing nations, is aimed at identifying protectionist measures and improving multilateral surveillance under GATT trading rules and procedures, the conference sources said.

• Dispute-settlement procedures were agreed to under GATT rules, affecting both industrial and agricultural products.

• The services industry will be studied individually by each GATT member that has "an interest in services."

The proposal affecting services was pushed for strongly by the United States, supported by the EC, but opposed by important developing nations, notably India, mainly because of U.S. insistence that any study be conducted under GATT auspices.

In compromise language, which the United States accepted, the agreement "invites contracting parties to exchange information" on the services industry through organizations such as GATT, and to report back at the 1984 GATT ministerial meeting to see whether "any multilateral action" in services is "appropriate and desirable."

Although the services section is weaker than the Reagan administration would have liked, U.S. officials appeared satisfied. "It is part of the commitment we have made to improving the GATT system here and making it work," a senior U.S. official said.

"Everything, of course, now depends on whether we can get an agreement with the EC over agriculture," the official added.

Officials from the United States and developing nations firmly ruled out Sunday an earlier possibility that the EC would issue a separate statement outlining its objections. The officials maintained that GATT operated on a principle of consensus.

The EC said there was a precedent established during a GATT ministerial meeting in May 1963, when the community issued a similar statement. That meeting launched the Kennedy Round of trade liberalization negotiations.

U.S. officials said they were willing to continue discussions with the EC over agricultural subsidies and related issues during bilateral talks starting Dec. 10 in Brussels. But it was not immediately clear how such talks could resolve the controversy.

Secretary of State George P. Shultz will head the U.S. delegation at Brussels. Also participating will be William E. Brock, the U.S. trade representative, and other top Reagan administration officials, as well as top officials of the EC Commission, including its president, Gaston Thorn.

For Kenyans, A New Life

(Continued from Page 1)

Profit then on each acre of hybrid corn sold was $71.42.

The average highland small farmer today owns 5.5 acres of land. Richard's holdings have grown to 15.5 acres. Thirteen years ago he owned no cows; today he has eight dairy cows and three beef cattle.

Two years ago, when construction of the area's first asphalt all-season road began nearby, Richard bought a small shop near the road for $485. The shop value has since doubled.

Cleophas built his $142 into more than $1,500 cash by 1975. That year he used the entire amount as a down payment on a 24-acre farm east of Kilibwoni. He has 4.5 acres of corn and five dairy cows.

With their salaries and farm sales, Richard averaged $1,400 in earnings last year and Cleophas $2,500. Kenya's per capita income is $257.

NEXT: Despite signs of progress, many of Kenya's rural poor are trapped in subsistence farming.

WORLD BRIEFS

Socialists Accept Fanfani Program

ROME (Reuters) — Socialist Party leaders approved Prime Minister-designate Amintore Fanfani's plan for the Italian economy Sunday, clearing the way for the formation of a new coalition government, party officials said.

Mr. Fanfani, 74, a leader of the dominant Christian Democratic Party, was expected to tell President Sandro Pertini later Sunday or Monday that he was ready to form a new government. He has drawn up a 28-point plan for the economy, including more public spending and limits on wage increases.

The small Republican Party of former Prime Minister Giovanni Spadolini had been reluctant to join a new five-party coalition, charging that Mr. Fanfani had gone too far to appease the Socialists in his plan. But political sources said they expected the Republicans to agree Monday to join a new government.

2 Called Suspects in Shooting of Pope

ROME (UPI) — The judge investigating the assassination attempt against Pope John Paul II has issued arrest warrants for two Turkish men wanted in connection with the shooting, judicial sources said.

The sources said the warrants were issued Saturday for Oral Celik and Bechir Selenik, who are still at large. It was not known what role investigators believe the two men may have played in the May 13, 1981, shooting in St. Peter's Square.

The Italian news agency ANSA said investigators suspect Mr. Selenik of supplying Turkish terrorist Mehmet Ali Agca, who is serving a life sentence in an Italian jail for the shooting, with money to finance his travels through East and West Europe in the year before the shooting. ANSA said Mr. Celik may have helped Mr. Agca acquire the Browning pistol that he used to shoot the pope.

31 in OAU Assail U.S. Over Namibia

TRIPOLI, Libya (Reuters) — Thirty-one African governments have condemned U.S. and South African attempts to link the independence of South-West Africa, also known as Namibia, to a withdrawal of Cuban troops from Angola.

A resolution released Saturday by governments attending the 19th summit of the Organization of African Unity, which collapsed on Thursday, also denounced "Israeli aggression and genocide against the Palestinian and Lebanese people, in particular the massacres" at two Beirut refugee camps in September.

The Libyan foreign minister, Abdel-Ati Obeidi, said at a press conference Saturday that the statement on Namibia was a direct response to U.S. Vice President George Bush, who insisted that the issues were linked during an African tour this month. An OAU spokesman, Peter Onu, said the resolution was not official because it had not been adopted by a full summit.

For the Record

HELSINKI (Reuters) — Soviet Prime Minister Nikolai A. Tikhonov will begin a two-day official visit to Finland on Dec. 9. The visit was to have begun Nov. 24 but was postponed after the death of the Soviet leader, Leonid I. Brezhnev.

LUSAKA, Zambia (Reuters) — An army unit shot to death Adamson Mushala, a guerrilla leader notorious for seven years of attacks on remote communities, the official Zambia news agency said Sunday. It said Mr. Mushala, a former ranger who was said to have turned against President Kenneth Kaunda when refused a top job in game management, was killed Friday in an ambush at his hideout in Lunga National Park.

BELFAST (AP) — A former part-time police officer was slain by two gunmen in Armagh on Saturday night, police said Sunday. They said the man, who was not immediately identified, was shot in the office of a gas station he owned. He was the 72d victim this year of sectarian violence in Northern Ireland.

BERN (UPI) — Swiss citizens turned down a government proposal Sunday and voted for permanent federal price controls. The vote was 56.5 percent for permanent controls and 43.5 percent for controls only in times of emergency. It was the seventh time that the government had been voted down in the 75 plebiscites on public issues held since 1891.

Reagan Rules Out Idea By Advisers for a Tax On Jobless Benefits

By Francis X. Clines
New York Times Service

SANTA BARBARA, California — President Ronald Reagan, attempting to end a damaging controversy, has personally "vetoed" the administration's study proposal for taxing unemployment benefits, according to his spokesman.

"This is not the type of thing I want to do," the president was quoted as declaring after reading news accounts of the proposal and the anger it stirred, and after talking with his chief of staff, Edwin Meese 3d.

The president's reaction was reported by Larry M. Speakes, his deputy press secretary. Asked whether the president had "hit the roof" in learning of the dissent to the proposal to put a disincentive tax on unemployment benefits, Mr. Speakes replied: "I've never seen the president hit the roof but I think he was pretty emphatic about how he feels about it."

In several interviews Friday, Mr. Meese tried to snuff out the controversy, saying the proposal had not been seriously considered, particularly by the president. Although it was one of eight proposals on unemployment submitted to Mr. Reagan in an option paper, Mr. Meese said the president had not yet been briefed on the subject.

"It has no status whatsoever," Mr. Meese said at one point. But in another interview he declared: "We do know that generally when unemployment benefits end, most people find jobs very quickly after that point."

Mr. Meese added, "There are many families, for example, who, because of more than one wage-earner in the family, are earning almost as much on unemployment as they would in their regular jobs."

According to congressiooal data, 63 percent of workers receiving unemployment benefits have annual incomes of less than $10,000. Of the 11.5 millioo workers currently unemployed, 6.3 million people, or 55 percent, no longer receive benefits.

Io the face of lingering high unemployment, Democrats, labor leaders and other critics have argued that the study proposal betrayed more of a callous attitude in the administration, rather than a genuine strategy to deal with the highest levels of unemployment since the Depression.

Administration officials replied that uoemployment benefits were already taxed for seasonal workers earning more than $18,000 for couples and $12,000 for individuals. Making the tax widespread among the unemployed and using the revenue for job training, they said, was only one of a comprehensive package of job-stimulating ideas.

Over the weekend, Mr. Reagan consulted by telephone from his ranch near Santa Barbara with Republican congressional leaders on the special session next week, aides said. No final decision has been made on whether to seek a six-month acceleration of next year's income tax cut, but aides suggested that the president might not submit the idea in the face of congressional opposition.

The president, in his weekly radio address Saturday, explained his decision to endorse the proposed doubling of the gasoline tax to finance a highway and transit repair program that he said would stimulate the creation of more than 320,000 jobs.

Canada Accepts 2-Part Division of North Territories

United Press International

OTTAWA — In a landmark decision in a 20-year struggle by the Eskimos of the Northwest Territories, the government Friday accepted division of the region into two governments.

John Munro, northern affairs minister, said severing the eastern region of the territories, which form most of Canada's northern boundary and one-third of its land mass, would be conditional on settlement of four native land claims and a negotiated boundary.

A quarter of the 43,200 people living in the Northwest Territories are Eskimos who call themselves Inuit, 7,000 are Indians and the rest of mixed origin.

In an April 14 plebiscite, 56 percent of the region's voters approved a division. The push to split the territory came from the region's Inuit population in the eastern sector who want to create an area called Nunavut, meaning "Our Land."

Mr. Munro said the division would enable northerners to control their own affairs, including economic matters, although most funding would come from the federal treasury. Native residents have urged a division of the Northwest Territories since the early 1960s.

Ceausescu Ends Asia Tour

The Associated Press

BUCHAREST — President Nicolae Ceausescu of Romania returned to Bucharest Sunday from official visits to Pakistan, Indonesia, Singapore, Malaysia and Kuwait.

The Associated Press

Police used nightsticks in an effort to apprehend a suspect who fell through a store window in Washington when looting broke out after a Ku Klux Klan rally. The man managed to climb out of the window and escape without being caught.

Police Teargas Unruly Crowd Protesting Ku Klux Klan Rally in Washington

New York Times Service

WASHINGTON — Police used tear gas to contain an unruly crowd protesting the first Ku Klux Klan rally here in 57 years.

The police acted Saturday after anti-Klan demonstrators began throwing rocks and bottles and tried to break through police lines separating them from a small group of Klansmen who held a brief rally in Lafayette Park across the street from the White House.

Klan leaders had predicted that as many as 200 of their members would march from the Capitol down Pennsylvania Avenue to rally in Lafayette Park across the street from the White House. Instead, about three dozen Klansmen showed up and, oo the advice of the police, revised their plan in order to stay clear of numerous anti-Klao groups demoostrating by the hundreds at different points along the planned route.

The Klan canceled its march down the aveoue, drove in a police motorcade to Lafayette Park and left their white robes in shopping bags during their 15-minute rally, which was more of a question-and-answer sessioo with reporters than a full-fledged rally. Then they were swiftly escorted out of town by the police.

At least six policemen were injured, oooe seriously. Several demonstrators were arrested. Before order was restored, two cars had been overturned, at least two stores in the area had beeo looted and windows in a oumber of buildings, including the historic home of James Madisoo, had been smashed.

U.S. Clergymen Assail Central America Policy

By Charles Austin
New York Times Service

NEW YORK — More than 300 religious leaders io the United States, including 22 Roman Catholic bishops, have issued a message denouncing the Reagan administration's policies in Central America.

The message, in the form of an ecumenical pastoral letter, comes amid growing concern by American churches over United States involvement in Central America.

"As citizens of the United States we are particularly sensitive to the responsibility that our government bears in the oppression and violence in Central America," said the letter issued Friday at a news cooference in New York.

The letter was distributed by the Inter-Religious Task Force on El Salvador and Central America, supported by more than a dozen religious agencies. Io addition to the Catholic bishops, heads of several major Protestant denominations and nine American rabbis signed the appeal.

Noting that many churches have already protested military and economic support of governmeots in Central America, the letter said that "our government is embarked on a course which we believe will only iocrease the bloodshed and violation of people's rights and dignity, as well as increase the danger of regional war."

It cootinued: "We deplore our government's role in the militarization of Central America, including the slow but steady increase of U.S. military advisers in El Salvador, Honduras and Guatemala."

Americans, the letter said, should seek an end to all military aid and intervendon in Central America, an eod to covert operations by the United States governmeot there, oegotiated political solutions to conflicts in El Salvador and between Honduras and Nicaragua, and temporary asylum for Ceotral Americans fleeing oppression.

Bishop René Valero of Brooklyn, one of the signers, said he believed there was a "greater awareoess among American Catholics than ever before" of the problems the church faces in Central America, partly because of the growing number of American Catholics of Hispanic background.

Ruth Harris, an executive with the United Methodist Church Board of Global Ministries, said that after she visited Nicaragua and Costa Rica recently she felt "humiliated and angry" about U.S. policy in the Caribbean. The Reagan administratioo's policies in Ceotral America "dismayed us beyond words," she said, quoting a letter a delegatioo of church officials wrote to farmers in Nicaragua after the delegation's visit there Nov. 10-22.

The church leaders signing the pastoral letter said they believed that U.S. aid to Guatemala provided "military assistance to a government responsible for the massacre of thousands of poor, indigenous people" and that the United States was behind covert ecooomic efforts to destabilize the government of Nicaragua.

Participants in the news conference said their message was issued in consultatioo with church leaders in Central America, although they agreed that not all religious leaders there would agree with their position.

Short Congress Session May Serve as Preview Of Shift in Priorities

By Steven V. Roberts
New York Times Service

WASHINGTON — The post-election session that begins on Capitol Hill Monday may turn out to be a preview of the oew Congress that takes office in January.

Io the view of many analysts, and a number of congressmen, the voters on Election Day signaled their representatives that they favored a shift in direction.

"There's a mandate in this country for actioo oo jobs," said Senator Richard G. Lugar, Republican of Indiana. "There's a great fear in this country that we have a gridlock of sorts, that we're dead in the water."

An aide to Senator Howard H. Baker Jr. of Tennessee, leader of the Senate's Republican majority, added, "We have to provide something that shows people we care."

Last week, congressional and administration leaders appeared to have begun responding to those signals. Senator Baker and Representative Thomas P. O'Neill Jr., speaker of the House and the chief Democratic spokesman in Congress, agreed to push forward in the postelection session with a plan to repair highways and create jobs, financed by a higher gasoline tax.

President Ronald Reagan somewhat belatedly endorsed a five-year, $32.9-billion program along those lines.

Some version of the legislatioo is expected to pass before this edition of Congress goes home for good, probably the week before Christmas. And it is likely to be only the first of many efforts to address the United States' economic troubles.

House Democrats are talking about a companion bill, already dubbed "Baker-O'Neill 2," they hope to bring forward in coming weeks. It would involve accelerated speoding of money already in the federal pipeline for various projects as a way to stimulate the economy. Meanwhile, lawmakers from both parties have beeo telling the White House to play down its emphasis oo mooetary policy, moderate its all-out attack on inflatioo and attach a higher priority to economic recovery.

In response, Mr. Reagan and some of his advisers have been considering the notion of moving up the 10-percent tax cut, scheduled to take effect in July. It is likely that the president will propose action on this idea during the postelection period, but many legislators, fearful of the impact on the deficit, do not favor the concept as the best way of promoting economic growth.

While events in the short sessioo are likely to demonstrate Congress's desire to take more direct action on the economy, they should also reflect the considerable impact Mr. Reagan and his conservative philosophy have made on Washington. No Democrat, it seems, dares propose a jobs bill that is oot financed by a specific new tax or by a specific cut in other budget items.

Another item scheduled for the session that reflects directly the election returns is the "domestic cootent" bill. This would require any foreign car sold in the United States to contain a certain percentage of American-made parts. The legislatioo is being pushed strongly by the United Automobile Workers, whose membership has been hard hit by the automobile industry's slump.

Many legislators worry that Congress is about to be inundated by a wave of protectionism that might be hard to resist.

Another major focus of legislative activity will be the military budget. How willing the lawmakers are to strike out Pentagon proposals in this between-holidays sessioo may foreshadow the outcome of the struggle next year over a reordering of national priorities. The biggest fight will probably come over the MX missile, recently renamed Peacekeeper as part of a strenuous White House effort to portray the weapon as an instrument of peace, not war.

Congress may also consider bills dealing with nuclear waste disposal, housing, immigration, regulatory reform, bankruptcy laws, aid to the Caribbean, and the powers of the Federal Trade Commission.

Whatever legislation comes up, the session that begins Monday really marks the unofficial opening of the 98th Congress. The 97th Congress ended in the voting booth oo Nov. 2.

4 Men Missing in U.S. In Fire at MX Test Site

Reuters

TULLAHOMA, Tennessee — Four workmen were missing and presumed dead after a fire at a U.S. military base where MX intercontinental ballistic missiles are tested, an air force spokesman said Sunday.

Two men were injured while extinguishing the blaze Saturday night at Arnold Air Force Base, about 50 miles (80 kilometers) south of Nashville. There was no immediate estimate of damage. The cause of the fire, which broke out in an underground cavern after a rocket motor test, was under investigation.

Herald INTERNATIONAL Tribune
Published With The New York Times and The Washington Post

When the PLO Says No

The rejection by the PLO of President Reagan's proposal for Arab-Israeli negotiations only proves the adage that those who make a bad war cannot make a good peace. After decades of futile but costly violence, culminating in the Lebanon debacle, the Palestine Liberation Organization seems totally incapable of turning a frustrated nationalism into constructive political action.

After apparently heated debate, and contrary to the counsel of many Arab governments, the PLO's central council still refuses to recognize the reality of Israel, and lays claim to all its land for a state the PLO alone would run. It is hard to believe this really represents the views of the scattered 4 million Palestinians, who have never been democratically consulted about such leadership.

The council, egged on by Syria, condemns even Yasser Arafat for his discussion of a Jordan-Palestine confederation with King Hussein, as envisioned by Mr. Reagan. That leaves Mr. Arafat without a credible mandate and makes irrelevant his energetic efforts to have the United States deal with him.

If defeat in Lebanon, the futility of Soviet and Arab support and the dispersal of Palestinian guerrilla forces cannot rouse the PLO from its fantasies and shake its commitment to violence, there is, sad to say, only one remaining source of pressure: the relentless absorption by Israel of the West Bank and Gaza, where 1.3 million Palestinians can still make a plausible territorial claim. Those who recognize these Palestinians' right to a large measure of self-government and seek to promote at least an interim settlement of the conflict — notably the United States — have declared themselves willing to resist the pace of Israeli settlement if diplomacy is given a chance. But the PLO's reasserted extremism turns that proposition on its head.

Let reality now sink in. If those who claim Palestinian leadership cannot contemplate coexistence, and persist in preventing King Hussein and West Bank residents from negotiating a true peace with Israel, then even this territory will soon be out of reach.

It sometimes seems as if these self-styled leaders prefer conditions that produce more Palestinian refugees and misery — and some more recruits for their desperate terror armies — to effective political action. Theirs has been a pathetic history of clamoring at every stage for what they could easily have had one or two wars earlier. They have thus encouraged extremism in Israel and perpetuated a tragic cycle of fear.

Mr. Reagan is left with no alternative but to hang his sensible proposals high above the Middle East and let more favorably disposed Arab leaders recognize that time is not on their side. If they truly fear Israel's urge to expand, let them offer it a fair peace. If they truly quake before the PLO extremists, let them use their considerable power to promote Palestinian leaders of a different spirit.

— THE NEW YORK TIMES.

Nakasone and the Yen

With the election of Yasuhiro Nakasone as prime minister, a long period of indecision at the top of the Japanese government seems to be ending. His predecessor, Zenko Suzuki, seemed to regard himself as an interim figure, filling the job while the Liberal Democratic Party debated its next steps.

Once again, in the tradition of the party, the question of leadership has been resolved essentially on personal grounds, with policy positions to come later.

Mr. Nakasone has said he wants to reduce the size and cost of government. He has been a supporter of a stronger defense force. Yet, as a practical matter, present Japanese policy on public spending and defense seems unlikely to change much. The real business of the new government lies elsewhere.

No country has a larger stake than Japan in the international system of trade, and that system is now in some considerable peril. The current conference of the General Agreement on Tariffs and Trade in Geneva is degenerating into a sullen exchange of accusations. The Japanese government never engages in this kind of recrimination, but, on the other hand, it rarely does much to alleviate the fears and political tensions in other countries.

Japan's export performance is based on superior products and sales organizations. But the extraordinary increase in Japanese companies' shares of foreign markets in the midst of a deep recession has contributed much to bringing the whole principle of open trade into jeopardy. The government, at least up to this point, has been reluctant to acknowledge that it has any responsibility to do anything about it — or even that there is any real substance to other people's complaints.

An example is the exchange rate of the yen, which has slid way down. The Japanese government did not engineer it, but neither did it do anything to prevent it. The effect has been to give Japanese goods, already highly competitive, a further and ferocious advantage in foreign markets. In the past several weeks the yen has risen significantly, but it is going to have to rise a lot farther before it reaches the range that most people consider its true trading value. If Japan's government continues to treat the yen rate as none of its business, and if the rate stays low, pressures will continue to rise in the United States and in Europe for the most pernicious and destructive kinds of protectionist legislation.

It is disquieting that nothing audible from Tokyo suggests that the incoming prime minister gives any particular priority to foreign economic policy and to the maintenance of trading relationships. But these relationships have become crucial to standards of living in all the industrial countries. A great deal depends on Mr. Nakasone's attention to them — a great deal not only for the Japanese but for Europeans and Americans as well.

— THE WASHINGTON POST.

Other Opinion

Superpower Enlightenment

It is obvious that the political life of the United States, from the beginning, has been permeated by the Enlightenment values of its founders. What has perhaps been less noticed is that the influence of these values, far from falling away with time, has been increasingly felt in American domestic life. The history of race relations in America in the second half of the 20th century, as compared with the whole previous history of that dismal subject, bears impressive witness to that.

When the Soviet Union signed the Helsinki declaration on human rights, and when Mr. Andropov's KGB then jailed the Helsinki Monitoring Committee, you don't have to be a dedicated cold warrior to find the word "hypocrisy" springing to your lips.

But Soviet concern for human rights — other than rights of people perceived as enemies to their state system — is not in fact altogether hypocritical, nor are Western countries exempt from hypocrisy in this matter. Between the wars, the Asian peoples under Soviet rule benefited far more from that condition than did any Asian and African peoples from any form of West European rule. That fact is generally ignored in the West. It is not ignored in the Third World.

— Conor Cruise O'Brien in The Observer.

Staying the Apartheid Course

It is remarkable, after more than a third of a century of uninterrupted Afrikaner nationalist rule, how little the profound, rigid and unshakable consistency of apartheid is understood outside the country.

The grand design has not changed. The acid test in this context was whether or not [Prime Minister] Botha would repeal, as he said he might, the "Immorality" Act against interracial sex. Fortunately for him, the Dutch Reformed Church, invited to give an opinion, recently spoke out unequivocally against such a liberalization. Although this unique law is honored more in the breach than in the observance, it cannot be repealed. To do so would destroy apartheid. If people of different races were allowed to marry, they could hardly be prevented from living together. From there it is no distance at all to the dismantling of the entire segregation program, including the homelands.

— Dan van der Vat in The Guardian.

Taxation and the Deficit

The acknowledgment by two leading members of the Reagan administration that the budget deficit could swell to $200 billion in fiscal 1984 should put an end once and for all to the absurd talk circulating in Washington these days about moving up the scheduled third year of the Reagan tax cut from July 1 to Jan. 1. With deficits in triple digits for the first time in American history, the nation simply cannot afford another tax cut.

— The Dallas Times Herald.

Standing Up to the Mafia

There are citizens of Sicily who stand up against the loathsome rule of the Mafia on that island, and who sometimes pay with their lives for their defense of civilized values.

We never read about them here, or see the film of their sacrifices on television. But Pope John Paul II, by going to Sicily and rebuking the Mafia in scathing terms, and encouraging those who refuse to cooperate with this criminal malignance, has put a seal of radiant recognition upon the Sicilians who are willing to live in danger for the vision of virtue.

Let us not forget them. Nor let us forget that the mob and its vile works need to be opposed in this country as well — courageously and tenaciously.

— The San Francisco Examiner.

NOV. 29: FROM OUR PAGES 75 AND 50 YEARS AGO

1907: Barmaids Can Carry On

LONDON — The Tribune comments on Mr. Herbert Gladstone's answer to a deputation, when he said the government had no intention of ending the occupation of barmaid: "To put an end to an occupation in which 100,000 women and girls are engaged would, as Mr. Gladstone pointed out, almost certainly produce results far more immediately disastrous than any mischief that could be shown under the present system. It is not proposed to interfere with the discretion of women as to their own employment under the law." The Daily Chronicle adds: "It is said that the barmaid is exposed to great moral dangers. It may be questioned whether shop girls are not yet more exposed to risks."

1932: War Debts and Sterling

WASHINGTON — Holding firmly to the position that Europe has failed to produce any facts justifying requests for postponement of war debt installments due Dec. 15, administration leaders, following a White House conference, are awaiting quietly the arrival of new London and Paris notes. In congressional circles, however, marked uneasiness was apparent as a result of the sensitiveness of sterling to the debt crisis, particularly with regard to its repercussions on the wheat and cotton markets. Some congressional leaders thought the sudden slump of sterling followed by depression in the domestic silver, cotton and wheat markets serious, although others appeared unimpressed.

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'This one is for being unable to find who murdered the nuns. This one is for the sudden and amazing apprehension of the culprits. This one here is for dramatic improvements in human rights . . .'

Central America: Is Reagan Steering to War?

By John B. Oakes

NEW YORK — "Pay no attention to the rhetoric, just pay attention to the deeds," pleaded a State Department official defending the Reagan administration's Central American policy the other day. The remark was unintentionally ironic. In Central America, more than anywhere else, this administration's confrontational actions are totally consistent with its militant rhetoric.

The policy did not, of course, begin with President Reagan. Its roots go back half a century or more, when U.S. Marines fought the Nicaraguan nationalist hero Augusto César Sandino and paved the way for the Somoza regime. But Mr. Reagan and his former secretary of state, Alexander Haig, raised it to new heights of doctrinal folly. There is reason to hope that Secretary George Shultz will modify both words and deeds when he gets around to it — but by then it may be too late.

The bankruptcy of Mr. Reagan's rhetoric and action in Central America becomes clearer every day:

• In El Salvador — a "no win" situation reminiscent of Vietnam — the United States is committed to a military-controlled government that is trying to suppress an indigenous revolution growing out of social, political and economic chaos.

• In Nicaragua the United States is endeavoring to subvert a radical government with which it refuses to negotiate except on U.S. terms. In the best Soviet style it is encouraging a potential armed invasion from Florida and Honduras to overthrow it.

• In Guatemala the United States is edging toward support of another right-wing military dictator, who is unable or unwilling to stop the massacres of Indian peasants.

• In Honduras the United States is building a military machine as its surrogate in the effort to overthrow the left-wing Sandinists of neighboring Nicaragua. It thereby runs the risk of embroiling these and other countries in an unwanted, unnecessary and unconscionable war.

In stubborn adherence to his Central American policy of sterile anti-communism, Mr. Reagan spares no effort to hoodwink Congress and the American public. The recent rhetorical flap over El Salvador's system of "justice" is a case in point.

It was good theater when Ambassador Deane R. Hinton suddenly denounced in public — for the first time — the right-wing death squads and the "rotten" judicial system under which they have been operating with impunity. And good theater again when the White House immediately threw a damper over his harsh words without repudiating them.

It was good theater when five national guardsmen, arrested several months ago for the vicious murder of four churchwomen from the United States, were instantaneously dredged up for a speedy trial and, doubtless, a speedier conviction.

It will be even better theater when Mr. Reagan and Mr. Hinton are able to point to this trial in the nick of time to certify in January that the human rights record of the Salvadoran government really is improving enough to qualify it for continued U.S. military aid.

Yet there is still no evidence that Salvadoran courts dare proceed against the political and military higher-ups allegedly involved in daily murders in the streets and alleys. How could they when, as one State Department official has noted, "the night before a decision, someone tells a judge that we know your children and they're dead at noon if you act against a defendant"?

Will a carefully timed show trial of five low-ranking national guardsmen in January, with no effort to follow leads to higher authority, demonstrate respect for human rights?

"There is currently no serious investigation of the possible involvement of Salvadoran officers in ordering the killings or covering them up," says the New York-based Lawyers Committee for International Human Rights in a letter sent this month to the State Department. The committee, which has meticulously followed the case of the four murdered churchwomen from its beginning in December 1980, recently uncovered new evidence suggesting that "superiors" ordered the killing.

"We are unable to discover any lawyer in El Salvador willing to pursue a vigorous investigation of all leads in this case. This is, in part, because lawyers there do not believe that the United States Embassy is willing to support such an investigation," writes the committee. No answer as yet — not even a rhetorical one — from Washington.

Meanwhile, things go on much as before, although at a slower tempo — 2,427 murdered so far this year, compared to 5,331 in all of 1981.

Late last month it was reported that 15 more leaders of the political opposition had disappeared from Salvadoran streets. Eight have since turned up in the hands of the military, charged with terrorism. The other seven — if there were seven — remain unaccounted for.

The New York Times.

The Caribbean: Grenada Wanted an Airport

By Jonathan Power

ST. GEORGE'S, Grenada — Little Grenada is the only Marxist country whose head of state is Queen Elizabeth II. The island is an anomaly in more ways than one.

It is the only country in the English-speaking Caribbean whose leader, Maurice Bishop, came to power by a coup. President Ronald Reagan calls it "a carrier of the virus of Marxism," yet it goes out of its way to encourage its private sector, seeks foreign capital and has a campaign to attract more North American tourists, already its single largest group of visitors. It has only one newspaper, state-run and full of government propaganda, yet the island's radio station, using a Cuban-built transmitter, relays the BBC news.

The island is full of rolling mountains, a jungle of palms, oleander, bougainvillea, purple and red hibiscus, crimson anthurium, bananas, breadfruit, ferns and palms. In 1979 its paternalistic and, by the standards of the democratic English-speaking Caribbean, oppressive prime minister, Eric Gairy, was deposed in a coup by the New Jewel Movement.

The movement was led by rather idealistic but inexperienced young men who were tired of poll-rigging, violence, corruption and Mr. Gairy's eccentric speeches at the United Nations, where he proposed a study of unidentified flying objects.

The people call their revolution "the revo." Wandering around the island, visiting the pretty capital port of St. George's, eating in its cheap but good fish restaurants, talking to apparently uninhibited passers-by on rural roads, it is hard to believe the experiment can be quite the "Marxist virus" that Mr. Reagan says.

Yet there are real issues that worry not only Washington but also London, Ottawa and Bonn, not to mention larger neighbors like Barbados and Jamaica. The principal concern is the building of the new airport by the Cubans. Meant to replace a tiny airport that can take only small propeller planes, it will have the capacity to handle, as former Secretary of State Alexander Haig said, any aircraft in the Soviet-Cuban inventory.

Western diplomats in Barbados make the case that Grenada sits astride the main tanker routes from the Gulf to southern U.S. ports; that its proximity to South America could provide a launching point for military activities there; and that, come the day of race war in South Africa, it could be the major jumping off point for Cuban troops flying to the battle zone without need to refuel.

Grenada's government has allowed the Cubans, the Soviets and the Libyans to set up relatively sizable embassies. While the British have one man here and the Americans none, the Russians have four. The Cuban ambassador not only is reckoned to be one of his country's most sophisticated diplomats but sits in often on Grenada's cabinet meetings.

The government refuses to call elections, and in the green-roofed prison on the hilltop overlooking St. George's it has at least 60 and perhaps as many as 100 of its political opponents locked up.

Still, however pro-Cuban the rhetoric, the political leaders rarely use serious Marxist terminology. And the economy is well run. In July a World Bank mission gave it high marks.

That report should be compared with the recent World Bank study on Nicaragua, which was heavily critical. The government, it says, not only is encouraging every kind of private endeavor but has its main priorities right. The bank appears to accept the government's case that if it is to make the best of the tourist trade it needs an airport that can handle the largest modern aircraft. Foreign Minister Unison Whiteman, in conversation, underlined this point, adding, "We have no intention, no plan to give military facilities to any third party."

While the refusal to call elections cannot reasonably be defended, it is true that the government is slowly — unnecessarily slowly — bringing its detainees to trial, often making use of judges from other islands. Even unsympathetic observers say the trials are free of political interference.

It is hard not to think this beautiful island is eminently wooable. People wanted the new airport before the revolution, but no one would build it for them until Cuba offered.

Washington and London should go out of their way to make it easy for Grenada to shake off its Cuban and Soviet friends, who do not appear to sit comfortably in its relaxed and individualistic atmosphere. Pushing it into a corner, as has been the tendency in the last few years, is short-sighted and counterproductive.

International Herald Tribune.

Why Menachem Begin Is Popular

By Ze'ev Chafets

NEW YORK — In his five years as prime minister, Menachem Begin has been portrayed in the American press as a contentious and fanatic nationalist. The democratically elected leader of one of America's principal allies has become the man the U.S. foreign policy establishment loves to hate.

This dislike has a parallel (some would say, its origin) in the antipathy of many Israeli intellectuals. They, too, view him as a dangerous hawk. This view has withstood such incongruities as the Camp David accords, a Nobel Peace Prize and evacuation of the Sinai.

But cross the Hudson from Manhattan and Begin the fanatic becomes Begin the perennial Gallup Poll favorite. Leave the rarified atmosphere of Jerusalem's academic salons and Mr. Begin is a popular, revered political leader. What accounts for this disparity?

One key to Mr. Begin's continued popularity with the American public must surely be his steadfast pro-Americanism. Some foreign affairs sophisticates may view his friendship for America as an embarrassment, but the average American responds positively.

And what of Mr. Begin's popularity at home? Recent opinion polls show that he would be returned to office by a wide margin were elections to be held today.

The conventional wisdom in the American press is that Mr. Begin is despised by the educated and loved by the great unwashed — the large Oriental Jewish communities from North Africa and Asia. This view is both patronizing and incorrect. Certainly much of his support comes from working-class districts and disaffected Oriental Jews attracted by his populist nationalist policies and religious rhetoric. But such supporters are by no means enough to account for his current showing in the polls, nor his electoral victory in 1981.

The truth is that a large and apparently growing number of college-educated, middle-class Israelis, many of European origin, support Mr. Begin. The reason for this should be obvious: Mr. Begin has been exceptionally effective in pursuing policies that are entirely coexistent with mainstream Israeli foreign policy and defense concerns.

In the American press, the future of the West Bank and that of the Israeli settlements there are often portrayed as the main Israeli issues. They are indeed central questions, on which Israelis are almost evenly divided. They will remain the subject of bitter national debate. Still, the refusal of King Hussein of Jordan to accept any territorial compromise means that the Labor Party alternative to Mr. Begin's policy is hypothetical at best.

For now, immediate national security is the paramount concern for most Israelis. It is in this area that Mr. Begin has shown an ability to solve chronic and seemingly insoluble problems. The peace treaty with Egypt is only one example.

Two others are worth considering. Firstly, recall that for years Israelis watched with growing alarm as Iraq's nuclear program proceeded toward its seemingly inevitable conclusion: acquisition of a nuclear bomb. It was widely held that nothing could be done to prevent it. The destruction of the Iraqi reactor and Mr. Begin's henceforth credible announcement that Israel will not permit enemy nations to introduce nuclear weapons into the Middle East were therefore greeted by most Israelis as an almost miraculous deliverance from nuclear terror.

Similarly, the threat that the PLO presence in Lebanon posed to Israel was a concern of Israeli governments for more than a decade. Previous governments' efforts had failed to remove the threat, and most Israelis had become resigned to the need to live behind barbed-wire and electronic fences.

This summer's war and the dispersal of the PLO have changed the quality of life in Israel in a fundamental way. Foreign observers who argue that the PLO had been inactive across the northern border for much of the preceding year miss the point. The jubilant reaction of the residents of Galilee to the expulsion of the PLO provided eloquent testimony that they had regarded PLO terror as a present and palpable danger, now removed by action of the Israeli government.

The writer, who is on leave of absence from his post as director of the Israeli government press office, is writing a book about American press coverage of the Middle East.

Ignoring Foreign Newsmen

By Phillip Geyelin

WASHINGTON — "Follow the red line," the voice of the commander in chief commanded, and sure enough a red line surged "up and up and up" across the television screen. That was Soviet defense spending. "Watch the blue line," the voice enjoined, as the "defense share" of the U.S. federal budget squiggled dismally down from 1962 to 1982.

Ronald Reagan is the first president to use visual aids that squiggle. They then disappear off-screen while graphics, bearing no hint of their source or authenticity, are summoned up to make the argument.

Technologically this may be a triumph. But the flip side at the White House is the abandonment — the atrophy, really — of the art of communication in traditional ways.

I have in mind the ability, once highly prized in a president of the United States and his closest White House advisers, to convey one-on-one (or one-on-a-small-group) not only the essence and the purposes of policy but the fine points. This White House doesn't have it, or doesn't think it's worth having. The best evidence of this is to be found in the way it treats foreign correspondents.

Of the dozens posted in Washington, the most important are those from countries in which a free press flourishes, and the most important of these right now are from the Western allies. Administration officials are quick to complain bitterly about the rampant anti-Americanism they detect in the European press. But they seem to be unaware of the almost countless ways their predecessors found over the years to influence foreign public opinion through Washington's foreign press corps.

The pickings have been lean in the first two Reagan years. An elite group of foreign correspondents that formed in the 1950s to meet American policy-makers for background briefings, and held together through the Kennedy, Johnson, Nixon, Ford and Carter years, disbanded early last year in despair of finding open doors to the Reagan people.

One of the principal figures in this now-defunct circle reports making 10 approaches to Judge William Clark, Mr. Reagan's national security adviser, without success. One of Mr. Clark's underlings told him bluntly, he says, that the administration is not interested in foreign correspondents.

What is new is not the preference for unobstructed access to television and radio, or, as a second priority, to the American press. The sharp and senseless break with the past is that the foreigners scarcely count at all.

John Kennedy cultivated foreign newsmen to a fault, some would say. He even interviewed them.

When Secretary of State George Marshall launched the European economic recovery plan in a speech at Harvard, Undersecretary Dean Acheson recalls in his memoirs that he called in "my British friends" of the BBC, the Daily Telegraph and the Daily Express. He not only explained Mr. Marshall's speech, he asked that they cable the full text and "have their editors send a copy" to Foreign Secretary Ernest Bevin "with my estimate of its importance."

Richard Nixon once was so taken with a column in a London Sunday paper that he invited the author all the way to the White House for an exclusive interview. The public affairs office in the Nixon and Ford White Houses had a spokesman specifically assigned to foreign correspondents.

In the Carter years, Zbigniew Brzezinski, the national security adviser, was irrepressible. While this sometimes made for garbled presentation of policy, his special efforts to meet the needs of foreign correspondents served their purposes and more often than not the president's.

Making the effort is no guarantee of kindly treatment. But not making it invites trouble. "The good ones want to understand," says a former State Department spokesman. "And when they're blocked, they take second-bounce material." Not making the effort can only be a mark of innocence — or insecurity.

The Washington Post.

LETTERS TO THE EDITOR

By Any Other Name

We should not let the Reagan administration get away with its cynical misnomer for the MX nuclear missile program: "Peacekeeper." The weapon should be referred to by the name used in the Pentagon's missile-killing theory on which the MX "dense pack" is based: "Fratricide."

BRIAN STONEHILL.
Paris.

The French Deterrent

Regarding "Paying Off the Alliance's Nuclear Mortgage" (IHT, Nov. 17) by Gerard C. Smith (IHT, Nov. 17):

One cannot but express some surprise and dismay at reading Ambassador Smith's comments. One may understand the academic quest for once-and-for-all solutions to the security problems of Europe, however irrelevant they may appear to the current issues facing the alliance; but it is somewhat saddening to see someone who should be more fully aware of French institutions bluntly assert that "nuclear policy-making is not yet democratized in France."

Any observer of the French scene could indeed testify that defense issues are thoroughly debated by the Parliament and the media. As recently as Nov. 12, the National Assembly devoted more than six hours to the discussion of the defense budget; the debates on the floor took 43 single-spaced pages of the French equivalent of the Congressional Record. Both majority and opposition speakers stressed the importance of increasing the quality and readiness of the French nuclear forces, demonstrating once again that, on this crucial issue, a wide consensus exists. It is strange that the emergence, in a country like ours, of a firm and widely supported opinion could be interpreted as a lack of democracy.

The truth is that France has continuously reaffirmed her attachment to an independent nuclear deterrent. The nuclear component of the French defense budget which amounted to 30.6 percent in fiscal 1982 will reach 31.6 percent in fiscal 1983. Those are the facts, even if they are not to the liking of the proponents of the recommendation to the Europeans that they should play the conventional hostages in a limited war in Europe.

ALAIN DEJAMMET,
Press and Information Services,
Ministry of External Relations.
Paris.

Who's the Pest?

Regarding "Getting Close-Ups of the Polar Bears" (IHT, Nov. 11):

The reporter writes that the animals "have become dangerous pests to an increasing human population." Inasmuch as he admits that "the bears have thrived unchallenged for centuries" there, wouldn't it be more accurate to say that humans have become dangerous pests to the bears?

AL HIX.
Zagreb, Yugoslavia.

Letters intended for publication should be addressed to the editor and contain the writer's signature, name and address. Brief letters receive priority, and letters may be abridged. We cannot acknowledge all letters, but we value the views of the readers who submit them.

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From Andropov, Straight Talk on Soviet Economic Failures

Party Leader Offers Prescription Along With Diagnosis

By John F. Burns
New York Times Service

MOSCOW — When Yuri V. Andropov addressed the Communist Party Central Committee last week, the new leader spoke first and longest about economic problems. Rather than vaunting Soviet progress, as Leonid I. Brezhnev did before turning to shortcomings, Mr. Andropov gave it straight. More than half of his speech was devoted to a chronicle of the bureaucratization, idleness, wastefulness and inertia that have turned the world's fastest growing industrial economy into a sluggard.

NEWS ANALYSIS

Nikita S. Khrushchev used to flail against immobility, and Mr. Brezhnev was often harsh about particular failings, but it is a long time since a Soviet leader gave so pointed and comprehensive an indictment.

At first glance, the credentials of the new party boss seem unpromising for an economic innovator. He has never managed a plant or a farm. But his position for the last 15 years as chairman of the KGB, the Committee for State Security, put him in the best position of all top Soviet officials to know how sclerotic the economy had become. Hoodwinking superiors is a major part of the system, but the KGB had the eyes and ears to know what was going on.

Eastern European diplomats cite another factor. After he returned in 1957 from his stint as ambassador to Hungary, Mr. Andropov, as chief of liaison with other parties, was a pivotal figure in the economic changes instituted under Janos Kadar in Hungary and, to a lesser extent, in East Germany. Hungarians in Moscow say Mr. Andropov argued for acquiescence in the market-oriented mechanisms Budapest introduced to get its economy moving. In his Central Committee speech, Mr. Andropov pointed to "the experience of fraternal countries" as a guide for changes at home.

The speech also suggested that tightening discipline will be a priority, starting with the lackadaisical habits of the work force of 140 million. In the 1981-85 Five Year Plan, 90 percent of the growth was to come from increased labor productivity. But the rise in output per worker this year will be barely 2 percent, a statistic that has contributed greatly to small overall growth of 2.8 percent, 40 percent under plan. In the fields and on the shop floor, the story is one of chronic absenteeism, idling, and drunkenness. And incentive payments have not helped, since no amount of rubles can buy goods the stores don't have.

For Moscow bureaucrats, the word was decentralization — "the need," Mr. Andropov said, "to extend the independence of amalgamations, enterprises and collective farms."

Production of consumer goods would have to rise. Planning targets must be realistic. Initiative and enterprise must be encouraged, new emphasis placed on the economical use of resources. New technology should be introduced boldly, with understanding for any consequent hiatus in quota fulfillment. Gosplan, the state planning committee, should leave quota-setting for "ordinary goods" to local bodies. The success of the West — "world experience," was his code phrase — should receive due weight. Personnel should be placed "correctly" with a view to "organizing ability and a sense of the new."

But Mr. Andropov also signaled that no one should expect a whirlwind. As if mindful of the ghost of Khrushchev, he emphasized the need for "caution" in decentralization. He offered few specifics for action, allowing himself room to backtrack. And on the most important issue of all, agriculture, he offered a restatement of Mr. Brezhnev's "food program," introduced in May. Western experts dismissed it as tinkering when radical solutions are required. But economic decentralization can go only so far before Soviet political power is undermined.

Mr. Andropov seems to have won his job with strong support of the military, through Defense Minister Dmitri F. Ustinov. The generals, more than anyone, fume over chaos in the civilian economy. But they, above all, profit by the command economy that assures them first call on steel and electronics for their fighters and tanks. Furthermore, the cost of new technology could pose a threat to the military's huge demands. Western intelligence estimates military expenditures at about 14 percent of the gross national product, twice the U.S. figure, even without counting the KGB's sizable share. Mr. Andropov could hardly be expected to begin by challenging the vital interests of his supporters in the armed forces and the KGB.

Then there is corruption. He has pledged to uproot bribery and financial skulduggery that run like a web through Soviet life. One of his first actions was the appointment as first deputy prime minister of an old KGB crony, Geidar A. Aliyev, who had made his reputation fighting corruption in Azerbaidzhan. Yet Mr. Andropov well knows how important the so-called second economy is to the people's well-being, not to mention full employment. Some estimates put the proportion of the GNP that accumulates *nalevo*, or "on the left" as Russians put it, at 40 percent. Even if some of these resources were channeled back into the state economy, the disruptions of a serious crackdown could be devastating.

Alvaro del Portillo

Vatican Issues Regulations For Opus Dei

United Press International

ROME — The Vatican has released a document giving the secretive and conservative Opus Dei organization a status equal to a religious order but also containing strict guidelines for the group.

The document released Saturday by the Sacred Congregation for Bishops follows Pope John Paul II's decision in August to make the 72,000-member mostly lay organization a "personal prelature," making it roughly equivalent to a major religious order.

Opus Dei, which means Work of God in Latin, has expanded to 80 countries since it was founded in Spain in 1928 by Monsignor José María Escriva de Balaguer. It has many critics inside and outside the church. Several cardinals have openly criticized the group's secrecy and tactics.

Its members, most of whom are not priests or nuns, are working professionals who take vows of chastity, poverty and obedience and will their possessions to Opus Dei.

Critics have called the wealthy organization highly secretive, sectarian, totalitarian and even bizarre because of the hold they say it has on young people.

The Vatican document named the Opus Dei president, Monsignor Alvaro del Portillo, as prelate but it contained firm guidelines that said he and the group must respect the legitimate authority of local bishops.

It stressed that members must join the group and take vows of their own free will.

The document said Opus Dei could not recruit candidates for the priesthood away from local seminaries and that it could not impose a choice of profession on its members.

It specified that every new Opus Dei center must be approved by the local diocese and that the organization was subject to the rulings of local episcopal conferences.

Spokesmen for Opus Dei have denied accusations against the group.

Compromise Reached For UNESCO Policy On World Information

By Henry Tanner
New York Times Service

PARIS — A compromise plan for future UNESCO activities in communications has been worked out here after a drafting panel agreed to change or delete a number of passages that Western journalists felt would be prejudicial to press freedoms.

The committee negotiated behind closed doors for eight hours Saturday to complete the draft.

Several references to a potential threat of government interference with the press were inserted into the text of the guidelines for a "new world information order" at the request of American and other Western delegates.

The Cuban delegation, at the request of Amadou-Mahtar M'Bow of Senegal, director-general of the United Nations Educational, Scientific and Cultural Organization, withdrew a proposal that would have made Western news organizations the object of a special study by UNESCO that might have encouraged restrictive measures against them.

A passage saying that the press has a watchdog function in scrutinizing the activities of authorities was inserted into the text. Passages holding the press responsible for contributing to the "solution" of such issues as disarmament and world peace were toned down after Western delegates argued that they could be used as justification for curtailing the activities of correspondents on charges that they were not "responsible" or "constructive" enough.

Western delegates were defeated in their effort to delete a passage saying that, because messages sent by information media can affect the future of mankind, the international community has a right to be concerned with the content of such messages. They argued that this was a invitation to censorship, but a majority of the committee did not agree.

The new language of the document, which provides an outline for UNESCO activities in the field of information and communications during the second half of the decade, must be ratified in a full meeting of the UNESCO conference here this week, and some proposals need the personal endorsement of Mr. M'Bow.

Western delegates welcomed the changes in the text, but they conceded that they had been defeated on other important points.

On Friday, before the drafting committee produced the final text, delegates from the West and the Third World heatedly debated the role and responsibilities of the press.

Third World nations complained that a handful of powerful *Western news organizations* have a virtual monopoly on the gathering and dissemination of information around the world. They charged that the Western information media were using their power in the information and communications fields to perpetuate the Western countries' economic and cultural dominance. They argued that it was UNESCO's responsibility to correct this imbalance.

Western delegates and representatives of private press organizations expressed fear that the UNESCO project and the language describing the role of the press would be used by undemocratic regimes to justify government control over the press, to institute censorship and to restrict the activities of foreign and domestic journalists who are politically independent.

The core of the Third World view was stated by Christopher A. Nascimento, former information minister of Guyana. "The power to inform," Mr. Nascimento said, "is *one* of the keys to power as such."

"The communications industry, the development of 'transnational' news agencies, the evolution of electronic information systems, the billions expended on pioneering the advancement of space and computer technology, all serve and continue to serve as a means of political, commercial, social and cultural dominance of the world by the developed nations," he declared.

Because information and economic power are intrinsically linked, Mr. Nascimento said, the nations that are seeking a "new information order" are the same ones that are seeking a new world economic order. They are the nations that are poor, he said, and more of them are getting poorer.

T.S. Kaul, a senior diplomat speaking for India, said 80 to 90 percent of the use of communications is controlled by the West while developing countries in Africa and other parts of the world still lack the telex and telephone equipment to contact their immediate neighboring countries and must have their calls routed through former "colonial capitals" in Europe.

Western correspondents set themselves up as experts, Mr. Kaul said, but in India, for instance, only one out of a hundred accredited foreign reporters speaks an Indian language. Correspondents must be "trained," he declared.

Afghan Insurgents Say Soviet Force Razed a Village

United Press International

ISLAMABAD, Pakistan — A large Soviet strike force backed by tanks and planes has razed an Afghan village to avenge the killing of government troops, according to the Afghan rebels' news agency.

All 1,000 homes in Zawah, in eastern Afghanistan near the Pakistani border, were burned by the assault force Nov. 19, Afghan Islamic Press said Saturday. It gave few details and no estimates of casualties. The agency quoted refugees fleeing into Pakistan.

The report could not be independently confirmed, but Western diplomats in Islamabad had indicated last week that a major operation appeared to be under way in the area.

The agency said the attack was in retaliation for the killings of 70 members of a special force of the Soviet-backed Afghan regime's secret service by anti-government guerrillas a month before.

Rebel sources reported heavy fighting elsewhere in Ningarhar province, apparently in an area just southwest of the Tora Bora resistance base. Rebels had killed 70 and wounded 100 Soviet soldiers by Thursday and had destroyed 12 tanks or other vehicles, the agency said.

4 Die in Italy Train Crash

United Press International

SAN BENEDETTO DEL TRONTO, Italy — An express train traveling an estimated 72 mph (120 kph) ran off the tracks at this Adriatic resort Saturday, killing four passengers and injuring about 100, police reported. A Transportation Ministry spokesman said that a preliminary investigation indicated a signal light was faulty.

Strikes, Cutbacks, Long Waits Put British Health Care on Critical List

By Peter Osnos
Washington Post Service

CARDIFF, Wales — Britain's system of free, comprehensive medical care, pride and symbol of this country's commitment to the welfare of its people, is going through its most troubled period since it was founded with high hopes 34 years ago.

Soaring costs, an aging population, months of labor trouble and a belief that Prime Minister Margaret Thatcher's government favors an increase in private medicine, have led to what is widely seen as a severe crisis of confidence in the health service's ability to meet the public's needs.

"It's sad," said Gordon Harrby, a regional administrator here. "We have raised people's expectations and then we're not able to achieve the results they have been looking forward to."

Waiting lists of two years or more are increasingly common for orthopedic, ear-nose-throat and gynecological surgery.

There are reports throughout the country of cutbacks in hospital space, the closing of outpatient clinics and restrictions on advanced treatment such as kidney dialysis, bone marrow transplants or the insertion of pacemakers. Purchases of new equipment are being postponed or canceled, and hospital maintenance is being scaled back.

"In bluntest terms," said J. Keith Moger, director of the vast 11-year-old University Hospital, the best in Wales, "the cuts mean that many patients who go on waiting lists will never come off."

In a sense, health care problems in the industrialized countries of the West are a product of success. Demands on facilities have risen sharply, and medical science has developed spectacular new means of helping the sick — but at extraordinary expense.

As one of the leading welfare states, with perhaps the foremost nationalized health system and the deepest economic recession, Britain's plight is particularly difficult.

A recent confidential estimate by senior local officials in Wales, which caused a furor when it was leaked, predicted "an unprecedented squeeze in 1983-84." The report called for the "most vigorous and determined attack on costs and control of manpower."

To outraged union leaders, that meant fewer jobs and reduced medical care.

In fact, despite restraining expenditures, the Thatcher government is spending more in real terms on health than any previous British government. The health service's share of overall social spending has inched upward annually.

Figures announced recently for the next fiscal year maintain the pattern of increases at about 12 percent over inflation.

But just to stay even with mounting requirements, in the opinion of many health experts in and out of government, a boost of around 2.5 percent is necessary, but this Conservative Party administration plainly will not provide it.

The main reason costs are running so much higher are these, experts say:

• There are now 3 million people over the age of 75 in Britain, a figure that increases by 75,000 a year. Their health care, it is reckoned, costs six or seven times more than that of people of working age.

• Advances in science and technology are offering the prospect of expensive treatments not available previously, and under the British system they will be given for free. Among the longest waiting lists, for instance, are those for hip and knee replacements.

• Health workers are demanding wage increases that are greater than the amount the government has forecast in its budgets. With almost 1 million employees, the health service is the largest employer in Western Europe and about twice the size it was in 1948.

For seven months, the system has been hit by regular strikes and slowdowns by nonmedical staff, ambulance drivers and some nurses. This has lengthened delays in treatment and means a pay settlement that will have to be partly met by money earmarked for other purposes.

Also blamed by some are the high drug prices charged by multinational pharmaceutical companies and the inefficiencies of what critics say is a bloated health service bureaucracy.

Moreover, many of Britain's facilities are old, and replacing them means huge capital expenditures. As an official put it, "The fabric of the hospitals, their physical presence, is deteriorating."

How all of this will translate in practical terms for Wales, based on expected spending well below the optimum, is "devastating," said Albert Huish, a longtime member of the community health authority for Cardiff.

"We are going to have to examine very much more carefully what everybody does and how we spend our pounds and pence," said Mr. Moger, the hospital director. "That in itself is not catastrophic. But having said that, I think there is going to be a considerable difference as to service, both in standard and quantity, we can provide."

Summarizing the sense of alarm, the respected Times Health Services Supplement last month published an open letter to Prime Minister Thatcher that said: "We are not suggesting that you have deliberately set out to destroy the National Health Service, nor that you want it to decline, but the reality is that current economic circumstances are threatening the service with destruction unless your government does something to rescue it."

Threat to System Is Seen In Growth of Private Care

Washington Post Service

CARDIFF, Wales — A few months ago, the British United Provident Association, the country's largest private insurance company, opened a spiffy multimillion-dollar, 108-bed hospital here.

Its color-coordinated rooms, catered meals and the credit-card applications on the front counter contrast sharply with the drab surroundings in state hospitals.

"We believe we can offer the best of service," said the hospital's director, Christopher Williams, 29, citing "higher nursing ratios, the best operating theaters, and quicker services which avoid pain and discomfort for the patients in many instances."

Many in Britain are worried about the fate of comprehensive, free medical care, and the vision of more American-style hospitals like that one, underwritten by a major increase in private insurance, causes anguish among supporters of the national health system.

They fear that Prime Minister Margaret Thatcher's Conservative government might establish two standards of medicine again in Britain — the best for those who can pay, what's left for the rest.

The private health sector in Britain is still very small. Throughout the country, there are now only 150 private hospitals, with no more than 120 beds each. However, more than 4 million people are already in private insurance programs, mainly provided by their employers.

Harold Cairns, who has been a general practitioner for 25 years in the same working-class district where his father practiced, strongly opposes "privitization," as it is called.

"An increase in private care would greatly reduce the general level of treatment in the county," he said. "Not that care wouldn't be provided. It would be just that much harder to get for the less affluent."

Ninety percent of the health care in Britain is through neighborhood general practitioners like Dr. Cairns. It is widely agreed that they continue to offer easily available, free treatment, reflecting the improvements in medicine of the past three decades.

"Everybody has a doctor they can go to and who will come to them if necessary," he said. "A man with cancer of the stomach or appendicitis will get an operation right away. It is the person with a hernia or varicose veins [who] will have to wait and wait."

It is to alleviate those delays in obtaining minor or elective operations that more people are turning to hospitals like the new one here built by the British United Provident Association.

When Mrs. Thatcher received treatment for varicose veins recently, she did so at a private clinic.

Aide to González Ends Spanish Party Dispute

Reuters

MADRID — A public dispute between Prime Minister-elect Felipe González and his top aide, Alfonso Guerra, suggested strains between Mr. Guerra's more radical approach and the moderate stance of Mr. González as final preparations were made Sunday for Spain's new Socialist government to take office this week.

Mr. Guerra, deputy leader of the Socialist Workers' Party, who is credited with engineering the party's victory in the Oct. 28 elections, refuses to say whether he will agree to be deputy prime minister. Mr. González has said that he wants Mr. Guerra in his cabinet, but Mr. Guerra has indicated that he would rather remain exclusively involved in running the party.

The 17-member cabinet proposed by Mr. González will control Spain's first leftist government since before the 1936-39 civil war. The cabinet, to be sworn in after Mr. González unveils his program and wins his first confidence vote in the Cortes, or parliament, on Tuesday or Wednesday, is made up of moderates.

Political sources said Mr. Guerra was annoyed that some of his more radical nominations and proposals had been ignored.

The Socialists are taking power from progressive conservatives just seven years after the death of the rightist dictator Franco and the restoration of democracy in Spain. Three members of the proposed cabinet, including Mr. González, began their political careers in clandestine opposition to Franco, who outlawed all leftist parties.

But the Socialist Workers' Party is not the same party that Franco banned at the end of the civil war. It has dropped its Marxist label and its policies are regarded as being close to those of social democracy.

The proposed cabinet has been welcomed in almost all sectors. There were no immediate denunciations from the rightist Popular Alliance, which will be the main opposition party.

The alliance, led by Manuel Fraga, a former information minister under Franco, controls 106 seats in the 350-seat lower house, against 202 held by the Socialists. The two parties have worked together during the transition.

The outgoing government of the Union of the Democratic Center, which has only a handful of former ministers in the new lower house, has also cooperated with the Socialists.

Mr. González is expected to spell out the broad aims of his administration Tuesday. Official sources said he would reaffirm campaign pledges to reduce unemployment from two million to 800,000 during his four-year term. They said he would also seek to cut inflation from about 14 percent to 8 percent.

He is further expected to announce an immediate freeze on Spain's integration into the military wing of the North Atlantic Treaty Organization.

There are nine economists among the proposed ministers. The average age of the cabinet members is 40. Mr. González's age.

Mr. González's nominee for foreign minister, Fernando Moran, a career diplomat, is one of only five members of the proposed cabinet to have held high office. Another is the nominee for economy and finance minister, Miguel Boyer.

Giscard Is Seeking United Opposition For 1983 Election

Reuters

PARIS — Former President Valéry Giscard d'Estaing called Sunday on France's two main opposition groups to join in a center-right campaign against the Socialist government in the March municipal elections.

Mr. Giscard d'Estaing, increasingly returning in the political spotlight after his election defeat last year, told delegates of the affiliated parties in the Union for French Democracy that new links should be forged with the neo-Gaullist Rally for the Republic, the party led by Jacques Chirac, the mayor of Paris.

The 2,000 delegates at the two-day national congress cheered when he called for renewed cooperation between the two groups that provided his parliamentary support when he was in office. He said that it was crucial that they have the same major objectives and to "conclude the best possible electoral pact for victory."

The elections, for council seats in France's larger towns and cities, will be a major test of support for President François Mitterrand's government. Parliamentary elections are not due until 1986.

Mr. Chirac, who has recently been regarded as the main spokesman for the opposition, had lunch with Mr. Giscard d'Estaing at a surprise reconciliation meeting Wednesday. They had been at odds since Mr. Chirac resigned in 1976 after two years as Mr. Giscard d'Estaing's prime minister.

21 Dead in Mexican Storm

United Press International

MANZANILLO, Mexico — At least 18 children and three adults were killed in mud slides or floods after heavy rain late Friday in Manzanillo, a port city in southwestern Mexico, officials said Sunday. As many as 5,000 people were left homeless, one official said.

Canada, Albania May Establish Ties

New York Times Service

OTTAWA — Canada is studying a proposal to establish diplomatic relations with Albania, a move reflecting Canadian desires for a foreign policy independent of the United States.

The proposed ties would be not be so provocative to Washington as Canada's recognition of Fidel Castro's government in Cuba nor so teeming with possibilities as Ottawa's exchange of ambassadors with Beijing in 1971.

Word that talks on diplomatic relations with Albania were under way came earlier this month from the Ministry of External Affairs as Prime Minister Pierre Elliott Trudeau was visiting France and West Germany before flying to Moscow for the funeral of Leonid I. Brezhnev.

In economic discussions in Paris and Bonn, Mr. Trudeau affirmed Canada's hope of drawing closer to Europe as a means of lessening its dependence on the United States.

The initiative for Canadian ties with Albania followed a speech last month by Enver Hoxha, the Albanian leader, who said he was interested in better relations with Western countries but not with the United States.

Mr. Hoxha, 72, has been in power since World War II. He broke with the Soviet Union in 1961 and with China in 1978. While clinging to a course of "national self-reliance," Mr. Hoxha made overtures in the 1970s to Yugoslavia, Greece, Italy and other European countries.

A Canadian foreign service officer who monitors Albanian affairs said that while both countries were interested in having diplomatic relations, she did not think this indicated any basic reorientations. For Canada, she said, "It was more a question of 'why not do?' than 'why?', since we recognize almost everyone else."

Canadian diplomats said they expected little development in trade or cultural exchanges with Albania if diplomatic relations were established. The trade between the two countries is now estimated at less than $100,000, with Albania receiving Canadian machine parts and Canada importing dried fruit and olives.

Portugal Warned of Tough Reforms

The Associated Press

LISBON — Prime Minister Francisco Pinto Balsemão has warned Portugal that it faces a tough package of reforms aimed at combating the country's deepening economic recession.

Outlining the 1983 budget plan on national television late Friday, Mr. Balsemão listed new taxes on high incomes, air travel and imported consumer goods. He called for a voluntary 17 percent ceiling on wage increases, backed up by tax surcharges on companies that pay more.

The Social Democratic leader said the state spending deficit would be held to $1.6 billion, the same as in the two previous years, but that inflation would reduce real spending by more than 20 percent.

The financial plan of Mr. Balsemão's center-right coalition was presented to parliament Friday.

SENIOR EXECUTIVE POSITIONS

Published every Monday, this is a compilation of senior positions published in the INTERNATIONAL HERALD TRIBUNE and other selected publications. Comments concerning this feature can be addressed to Juanita Caspari in Paris.

POSITION	SALARY	EMPLOYER	LOCAT.	QUALIFICATIONS	CONTACT	Source
INTERNATIONAL ATTORNEY		Travenol Laboratories	Brussels	Min. 5 yrs. exp. gained primarily with major law firm (int'l legal matters); ability to work & commun. with sr. level mngt.	Executive & Professional Staffing dept., Travenol Laboratories Inc., One Baxter Parkway, Deerfield, Ill. 60015.	Wall Street Journal 16-11-82
DIRECTEUR GENERAL		Société de fabrication de produits laitiers	Moyen-Orient	Véritable prof. de l'ind. laitière (tout part. lait UHT); min. 5 ans exp. en tant que Dir. Général; Fr., Ang.	Réf. SA/2, Derek G. McCall, KAL Entreprises (U.K.) Ltd., 48 Upper Brook St., London W1Y 1PF.	Le Figaro 17-11-82
DIRECTOR NEWS VENTURE		Wide manuf. of plastics & rubber processing equip.		Good grounding in mktg.; engineering & financial analysis exp. in plastics or rubber processing ind.	Guy T. Ellegard, Candec Corp., 850 Greenwich, Ct. 06870 U.S.A.	I.H.T. 16-11-82
GENERAL MANAGER Middle East	Commensurate with exp.	Large diversified co.	Middle East	Tech. deg. & be a Master of Bus. Admin.; min. 15 yrs. exp. with proven track record in managing a co. & mktg.	Box 33,060, International Herald Tribune, 63 Long Acre, London WC2E 9JH.	I.H.T. 16-11-82
ENGINEER		Vallourec (leading French co. in the steel processing industry).	2 hours from Paris	Exp. in the oil field; Eng., Fr. +; any nationality.	Réf. 01.030, Mrs. Varnes, Vallourec, 7 Place du Chancelier Adenauer, 75116 Paris.	Financial Times 18-11-82
Directeur de l'informatique Europe		Becton Dickinson	Grenoble, France	Form. sup., min. 10 ans exp. dans les différents domaines de l'informatique; ang., fr. +	Réf. 945/078, V.V.B. Bruneway, Ernst & Whinney Conseil, 156 Bd. Haussmann, 75008 Paris.	Le Monde 23-11-82
SALES DEVELOPMENT EXECUTIVE		Philip Morris Europe	Lausanne	Swiss or work permit; direct sales exp. in cons. goods of min. 4 yrs. with proven track record of success; Eng., Fr. +.	C.E. Dufault, Personnel Dept., Philip Morris Europe S.A., 4 Place Chauderon, CH 1000 Lausanne 9.	I.H.T. 23-11-82
GENERAL MANAGER	Commensurate with exp.	U.S Fortune 100 co. (Maintenance & Operations Division)		Min. 10-15 yrs. exp. as supervisor of major maintenance & oper. activity; document. mngt. & admin. abilities.	Box D 1959, International Herald Tribune, 92521 Neuilly Cedex, France.	I.H.T. 23-11-82
Directeur de Coordination de Haut Niveau		SAE	Moyen-Orient	Ingénieur dipl. Grandes Ecoles de B.T.P.; exp. direction travaux importants à l'étranger; fr., ang.	Réf. Conc., Service de Recrutement, S.A.E., 32 Ave. de New York, 75784 Paris Cedex 16.	I.H.T. 23-11-82
New product development & mktg. mgr.	Commensurate with seniority of position.	Int'l co. (data-processing services).	Brussels	Ext. exp. int'l banking operations; grad. cal. fire (polytechnician, civil or com. engineer, MBA, etc.); 35-45; Eng. + Dir. or Span.	Jerry Dublin, 165 Chaussée de la Hulpe, 1170 Brussels.	I.H.T. 23-11-82

A joey, or baby kangaroo, with its mother.

Australians Seek New Ban On U.S. Kangaroo Imports

By Pamela G. Hollie
New York Times Service

MELBOURNE — Australian conservationists say that U.S. imports of kangaroo products are endangering the country's best-known animal. They are preparing a campaign to persuade the United States to restore a ban on importing the products, principally hides used for high-quality shoes and other items.

"The truth is that we probably won't do anything to save the kangaroo until America does," said James Cairns, a former minister for trade and environment.

An Australian documentary film focusing on the killing of kangaroos has given added impetus to the conservationists' cause. The documentary, "Goodbye Joey," has also rekindled a feud between conservationists, the Australian government and the fledgling kangaroo products industry.

Zoology Professor Peter Rowlinson of La Trobe University in Melbourne estimated that, since the United States lifted its ban two years ago, the number of kangaroos killed has reached six million a year, or twice the number for which the Australian government issues licenses.

"The American ban kept the lid on," Mr. Rowlinson said. He said it was "important that the United States reinstate the ban if we are going to save the kangaroo."

The ban was imposed in 1974, when kangaroos were listed as endangered as a result of demand for their hides, with the United States being the world's leading importer.

But in 1980, the U.S. Interior Department's Fish and Wildlife Service announced that the ban was being lifted on the ground that kangaroos were more numerous than previously believed. At the time, the kangaroo population of Australia was put at 32 million.

Demands for a new U.S. ban that might inspire other countries to follow suit have resulted in a preliminary statement from the U.S. Embassy in Canberra that such action is usually taken when an animal is endangered. The kangaroo is not, the embassy said; Australia has 35 million of them.

The new documentary features a kangaroo hunt in gory detail and shows eight hunters sitting around a campfire talking about how the freshness of the meat is improved if the animal is not dispatched too quickly. "While those Yanks keep eating it," one hunter says, "we'll keep shooting it."

The film has proved so damaging to the reputation of the kangaroo marketers that the industry has asked that it not be shown outside Australia.

"I am very concerned that if this film is shown overseas where they do buy kangaroo products — Scandinavia, the United States and Japan — we will be held up as barbarians," said Russell Findley, executive director of the Kangaroo Information Service, a management and marketing group. "We're not," he added.

The kangaroo industry cannot afford more scandals. Several small companies have been involved in meat-substitution frauds, and the industry is just now recovering from an outcry in the United States, where kangaroo meat was sold as beef a year ago.

Only this year has the industry begun to develop some promising new markets. Vic Bates, director of Southern Game Meats Ltd. in Sydney, predicted a Japanese demand of 300 metric tons by next year.

Conservationists, including the Fund for Animals, the Kangaroo Protection Cooperative, the Wildlife Protection Association and Greenpeace, contend that the kangaroo should not be killed at all.

The government, which instituted a kangaroo management program two years ago at the suggestion nf the United States, maintains that the kangaroo population must be controlled to allow room for other grazing animals.

Ancient Romans Sailed To Brazil, Scientist Says

Vessel From the 2d Century B.C. Is Purportedly Buried in Rio Bay

By Kenneth Freed
Los Angeles Times Service

RIO DE JANEIRO — Christopher Columbus's already battered claim as the discoverer of the New World could soon be lost altogether to an unknown Roman sailor whose poor navigational skills may have sent him crashing into the rocks of Rio de Janeiro's Guanabara Bay in the 2d century B.C.

Robert F. Marx, a U.S. archaeologist and antiquity hunter, says he believes he is on the verge of uncovering the wreckage of a Roman ship from the 2d century B.C. that is buried under yards of mud, sand and dead coral about one mile (1.6 kilometers) from the city's international airport.

If Mr. Marx's hopes and assertions become reality, the Roman vessel will be the first clear proof of what many historians and other scholars have long suspected — that Europeans sailed to the Western Hemisphere long before Columbus's voyage in 1492.

So far, the proof is circumstantial, resting largely on Mr. Marx's reputation and the recovery from the bay of numerous amphoras, large ceramic jugs, that have been verified as Roman-made and dating back to about 200 B.C.

Despite some doubters, Mr. Marx, 45, a former Los Angeles resident with solid archaeological credentials, says he is certain that he can provide irrefutable proof soon, perhaps within weeks.

After months of delay that he attributes to the Brazilian bureaucracy, Mr. Marx said he has been promised a permit to begin diving to the bottom of the 50-foot (15.1-meter) bay where the ship's wreckage is thought to be.

Using sonar equipment, vacuum machines, metal detectors and probes, "I know that I'll find the remains of the ship," he said. "I'll keep doing this until I find it. I'm satisfied that I am right."

Mr. Marx said he has already made 11 unauthorized dives into the bay, which is so polluted that underwater visibility is almost nil. "It's like working in braille," he said.

He has brought up fairly large amphora fragments from the site, which he described as "larger than three tennis courts." The fragments, some of which he pulled from under nearly three feet of coral and muck, augment the recovery of two intact jugs six years ago when the site was discovered.

The saga began when José Teixeira, a local scuba diver, pulled up the two barnacle-encrusted amphoras after hearing that fishermen had snagged some jugs in their nets.

Tests conducted for the Brazilian authorities by the Smithsonian Institution in Washington dated the amphoras to a general period within a few centuries either way of the birth of Christ.

Further examination of the vessels and comparison by Mr. Marx and other experts against previously verified amphoras placed their origin in the 2d century B.C. and suggested that they were made in Roman-occupied Carthage — near modern Tunis — on the North African coast.

Initially, Mr. Marx doubted that the jugs signified much, noting that many ancient objects found in the Americas were brought over in later periods. Others were wrongly labeled as ancient or were the result of hoaxes.

And, he said, "so-called Brazilian authorities assured me that there was nothing to it, that I should forget the whole thing."

In fact, some Brazilian archaeologists and government officials still dispute the theory that the amphoras were brought to the area before the period of Columbus's voyages.

Mr. Marx contends that their reluctance is based on bureaucratic lassitude and embarrassment over their inability to excavate the site. He also accuses the Brazilians of a misplaced pride in the "discovery" of the country by a Portuguese navigator, Pedro Alvares Cabral, in 1500.

The archaeologist likens the attitude to that of Italian-Americans who resist evidence that Vikings and other Europeans appeared in North America hundreds of years before Columbus, an Italian who explored under the flag of Spain.

Mr. Marx said that through deduction and the process of elimination, he has discounted the likelihood that the containers were brought over in Portuguese colonial times.

He further rules out the possibility that they were shipped to Brazil as collectors' items or as gifts for Brazilian rulers. Also, there are no records in local archives of a ship sinking in the area that would explain the relics.

FDP Rebels Form New Liberal Party In West Germany

Reuters

BOCHUM, West Germany — More than 1,500 liberal rebels formed a new breakaway left-liberal party Sunday in protest of an alliance between Free Democratic Party leader Hans-Dietrich Genscher and the conservative chancellor, Helmut Kohl.

The move, agreed to by an overwhelming majority of former Free Democratic Party members at a meeting in Bochum, comes as probably the biggest blow suffered so far by the depleted and strife-torn FDP.

Five senior liberal politicians and about 6,000 of the Free Democrats' 86,000 members have quit the party since it abandoned former Social Democratic Party Chancellor Helmut Schmidt last month.

But two parliamentary deputies, Helga Schuchardt and Friedrich Hoelscher, who left the Free Democrats last week, said they would not take part in the formation of the new party.

Altogether, 50 congress participants said they would not, or at least not yet, join the new party, whose name, statutes and program were still being debated.

Police, Protesters Clash At French Nuclear Site

Reuters

VIREUX, France — Police used tear gas to disperse anti-nuclear power demonstrators here Saturday who had been joined by steelworkers protesting the planned closure of their plant. No one was reported seriously injured.

Over the last two years there have been violent clashes between police and demonstrators who object to the government's decision to locate a nuclear power station at Chooz, near Vireux, in the Ardennes region of northeast France. Environmentalists and steelworkers have recently joined in a confrootation with authorities on the last weekend of each month.

Astronomers Puzzled by Star's Rapid Flashes

By Walter Sullivan
New York Times Service

NEW YORK — Astronomers are looking intently at a star in the constellation Vulpecula that they believe may be flashing on and nff almost 642 times a secood. That extraordinarily rapid pulse rate has already been observed in the radio emissions of a pulsar, nr pulsating star, at that same location.

The object's pulse rate is 20 times higher than any previously observed pulsar. Moreover, it does not appear to be slowing down, as would be expected from current theories about pulsars.

The radio pulses have been under observatioo since September with the world's largest radin antenna, a 1,000-font-wide (300-meter-wide) assembly near Arecibo, Puerto Rico. More recently the location of the radio source has been piopointed by antenna arrays, first at Westerbork in the Netherlands and then, with great precision, by the Very Large Array near Socorro, New Mexico.

A star discovered at the same locatioo by George Djorgovski of the Lick Observatory in California is being scanned for evidence of high-speed flashing. The technique is comparable tn blinking the eyes at the assumed rate of the flashing. When the blinking is in phase with the "nn" part of the cycle, the star will be visible, but when in step with the "off" part, the star will appear to vanish. The results so far have been described only as tantalizing.

In the radio observations, the recordings were broken into segments less than one nne-thousandth of a second in length. Analysis then showed the radio transmissions reached peaks of intensity almost 642 times a second.

The scientists assume that this nbject, like nther pulsars, generates its pulses by rapid rotation, in this case at 642 times a second. But the fastest pulsar previously known, in the Crab Nebula, spins only 30 times a second, and it is exceptional. It is visible through telescopes.

The more oearly typical pulsar rate is one or two times a second. According to Carl E. Heiles, professor of astronomy at the University of California at Berkeley, it is hard to explain why the object in Vulpecula should spin so very fast. Dr. Dooald Backer of his department led the team that detected the superfast pulsar.

Even spin rates of one or two seconds were puzzling when first observed. Other astronomical objects spin far more slowly, about once a month, for example, in the case of the sun.

Soon after pulsars were first discovered in 1967, Dr. Thomas Gold of Cornell University proposed that their rapid spin was due to rotational momentum remaining after a star collapsed from a much larger size. Pulsars are believed to be remnants of large stars that have collapsed to extreme density after burning up their nuclear fuel.

To conserve their rotational momentum, the spin rates of stars originally rotating in hours or days would have to increase until they might reach hundreds of times a minute. Then, particularly in the initial period after collapse, they would shed energy in the form of radiation pulses and gravitational waves. Losing energy in this way would gradually slow their spin. Observation of such slowing in the Crab pulsar was strong confirmation of the hypothesis.

When the superfast pulsar was first observed this fall, it seemed to be slowing, but more precise recording has oow shown its rate to be essentially unchanging. If the pulsar was produced, as scientists assume, by a supernova, which is the explosioo of a giant star and compression of its interior to superdensity, it must have occurred more than 30,000 years ago, Mr. Heiles said.

But, he said, there is oo evidence for such an explosion in that region of the sky, between the constellations Cygnus and Sagitta.

Gordon Gray, Former Army Secretary, Dies

New York Times Service

WASHINGTON — Gordon Gray, 73, a former secretary of the army wbo served in high national security posts from the Truman through the Ford administrations, died Friday of cancer at his home in Washington.

Mr. Gray, a Democrat, joined the federal government when Truman appointed him assistant secretary of the army in 1947, then secretary in 1949. Eisenhower made him his principal adviser on national security, and he continued to serve on numerous advisory boards in both Democratic and Republican administrations. From 1961 to 1977, he served on the President's Foreign Intelligence Advisory Board.

Mr. Gray was a Phi Beta Kappa graduate of the University nf North Carolina and served as the university's president for several years in the 1950s, with frequent interruptions for assignments in Washington.

Hugh Harman

CHATSWORTH, California (UPI) — Hugh Harman, 79, an Academy Award-winning cartoon animator who with his partner Rudolph Ising created "Lnoney Tunes," died Friday after having been in ill health for the past year.

The animators' "Merrie Melodies" cartoons gave the film world such characters as Porky Pig, Tweetie and Sylvester, Daffy Duck and Tom and Jerry. Their 1940 cartoon, "The Milky Way," won an Academy Award.

■ *Other deaths:*

Lee Patrick, 71, an actress whose most memorable role was Effie Perrine, secretary to Humphrey Bogart's Sam Spade in the 1941 film "The Maltese Falcon," Thursday in Laguna Hills, California, after a heart attack.

J. Montgomery Curtis, 77, who from 1947 tn 1967 was associate directnr, then director of the American Press Institute, Thursdsy nf kidney failure in Miami.

Erzsebet Hazy, 51, leading soprano of the Hungarian Opera House and a member of the cast for more than 30 years, Wednesday in Budapest. She was one of the most popular Hungarian singers on opera stages abroad.

Dinah Silveira de Queiroz, 63, a popular Brazilian authnr best known for her book "The Wall," Saturday of liver cancer in São Paulo.

N. Eldon Tanner, 84, a counselor to four Mormon Church presidents whose administrative skills were considered crucial during the church's most rapid growth, Saturday in Salt Lake City, Utah, of cardiac arrest.

Strike at U.K. Paper Ends

Reuters

LONDON — Wnrkers at the Daily Telegraph agreed Saturday to end a strike that had halted Londnn productinn of the newspaper for 10 days. The strike, opposed by the printers' own union, began as a protest against company plans to shut down a press to save money. A compromise was finally reached.

International Bond Prices — Week of Nov. 25

Provided by White Weld Securities, London, Tel.: 623 1277; a Division of Financière Crédit Suisse - First Boston

RECENT ISSUES

Amt	Security	Str/Conv	Issue Pr.	Mid Pr.	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS
All Currencies Except DM

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Avg Life	Curr
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$ 100	Caisse Nat Energie	12 3/4	'91 Jan	100 1/4	12.49		12.72
$ 100	Caisse Nat.Telecom	8 7/8	'84 Feb	96	12.69		9.24
ff 125	Caisse Nat.Telecom	7 1/2	'84 Mar	91 3/4	14.90	19.71	8.17
$ 20	Caisse Nat.Telecom	8	'84 Mar	92	10.98	13.34	8.70
$ 100	Caisse Nat Telecom	9 1/2	'84 Jun	94 1/4	11.51		10.08
$ 12	Caisse Nat Telecom	5 1/4	'86 Oct	96	11.23	12.27	9.59
$ 75	Caisse Nat Telecom	9	'73 May	91 1/4	10.39		9.04
ff 400	Charbonnages France	12 7/8	'85 Dec	96 3/4	15.24		14.34
$ 20	Ciments Lafarge	8 3/4	'90 Mar	88 1/2	12.31	13.78	9.67
ff 100	Ciments Lafarge	7 1/2	'87 Jul	75 3/4	14.96	18.17	9.90
$ 100	Cie Fin Paribas	15 7/2	'89 Sep	103	12.19		13.47
$ 20	Cie Franc Petroles	6	'85 Oct	86 1/2	11.63	14.34	6.94
$ 35	Cie Natl De Rhone	5 3/4	'84 Oct	96 1/2	12.21		9.78
$ 25	Cie Pechiney	9	'85 Dec	20	13.07	17.70	10.00
ffr 500	Credit Lyonnais	13	'89 Mar	103 1/2	12.18		12.56
$ 50	Credit National	13 3/4	'86 Jan	104	12.16		13.22
$ 100	Credit National	8 1/2	'84 Dec	91 1/2	11.14	12.32	9.29
sdr 50	Electricite De France		'83 Jul	96 3/4	11.07		9.11
$ 72	Electricite De France	13	'84 Jun	102	11.05		12.75
fl 400	Electricite De France	14 1/4	'85 Apr	96	15.28		14.54
$ 100	Electricite De France	9 5/8	'86 Apr	98	11.44		10.12
$ 20	Electricite De France	5 1/2	'84 May	88 1/2	11.08	13.41	9.39
$ 50	Electricite De France	5 1/2	'87 Jun	89	11.70		9.55
$ 100	Electricite De France	12 3/4	'87 Oct	101 1/2	12.33		12.56
$ 100	Electricite De France	13	'84 Jan	101 3/4	12.52		12.78
$ 125	Electricite De France	10	'84 Jul	92 3/4	11.80		10.78
$ 100	Elec De France Ex/w	14 3/8	'84 Apr	106 1/4	12.90		13.52
$ 100	Electricite De France	11 1/4	'90 May	96	12.07		11.72
$ 75	Elf Aquitaine	8 1/4	'83 Apr	98 1/8	11.95		8.92
$ 100	Elf Aquitaine	12	'90 Nov	94 1/4	12.76		12.47
$ 40	E.R.A.P.	9 3/4	'85 Nov	91	13.62		10.71
ff 150	Gaz De France	11	'86 Oct	25 3/4	14.84		11.73
$ 20	Gaz De France	9	'85 Mar	88	13.14	14.03	9.78
$ 80	Gaz De France	15 1/2	'86 Jan	103 1/2	12.12		13.04
nlr 100	Gaz De France	13	'87 Sep	94 1/2	14.62		13.76
$ 40	Lafarge Coppee	15 1/2	'89 Apr	100 1/2	14.08	14.67	15.15
$ 20	Le Nickel	9	'86 May	96 1/2	14.04	17.38	10.40
$ 40	Michelin	8 1/2	'83 Sep	98 1/4	10.82		8.65

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Avg Life	Curr
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$ 15	Oslo City	5 1/2	'84 Sep	91	11.14	12.34	6.04
$ 20	Oslo City	9	'85 May	96	10.91	12.01	9.38
$ 15	Oslo City	5 3/4	'83 Jun	89 1/2	18.61	12.04	6.42
eua 25	Oslo City	9 1/4	'85 Oct	98 1/4	9.55	9.47	9.52
nkr 100	Oslo City	9 3/4	'84 Jan	91	13.35		10.71
$ 13	Oslo City	8 1/4	'84 Mar	92	11.24	12.89	8.97
ff 100	Oslo City	7 1/4	'87 Mar	73 1/2	16.28	19.27	9.68
$ 40	Oslo City	9	'88 Mar	88	11.59	13.38	10.00
nkr 100	Oslo City	98 1/4	'90 Feb	91 1/2	12.84	13.21	11.20
$ 50	Oslo City	8 3/4	'97 Nov	79 1/2	11.68	12.93	11.01
$ 15	Roldal Suldal	5 3/4	'84 Nov	86	11.68	13.53	6.39
$ 15	Roldal Suldal	6 1/4	'83 Oct	98 1/2	10.96	13.22	7.08
$ 25	Sira-Kvina	5 3/4	'85 Jan	90	11.09	15.25	6.39
$ 25	Sira-Kvina	9	'85 Feb	75 1/2	11.34	12.96	9.42
$ 100	Statoil Den Norske	9 5/8	'84 Aug	92 3/4	10.96	11.38	10.27
$ 10	Tyssefaldene	6	'84 Mar	92 1/2	12.46	14.25	6.49
	PHILIPPINES						
	PORTUGAL						
$ 10	Portugal	5 3/4	'84 Jun	88	17.43	23.08	6.36
$ 30	Portugal	5 3/4	'85 Feb	96	13.24	22.80	6.49
	SOUTH AFRICA						
$ 25	South Africa	8	'87 Feb	92 1/2	13.62	17.46	9.70
$ 25	South Africa	7 3/4	'87 Dec	79	13.63	14.72	9.81
$ 00	Anglo American Corp	7 1/2	'87 Mar	83 1/2	13.97	17.16	9.98
$ 30	Escom	10 1/4	'83 Oct	96	12.70	12.49	10.46
$ 20	Escom	5 1/2	'84 Dec	96	12.03	14.67	9.55
$ 15	Escom	9 1/4	'89 Mar	88	12.87	13.77	10.51
	SOUTH AMERICA						
$ 20	Argentina	9 7/8	'84 Aug	87 1/2	18.89		11.29
$ 75	Brazil	9 1/4	'84 Jan	88	19.79		10.28
$ 08	Brazil	8 1/4	'87 Dec	79	14.35	19.10	10.44
$ 20	Colombia	8 1/4	'84 Feb	77	14.74	10.96	10.71
$ 100	Venezuela	5	'84 Jan	88	19.48		9.89
$ 100	Venezuela	8 1/8	'84 Oct	08	14.35		9.03
$ 00	Venezuela	8 3/4	'92 Oct	74	13.61	16.15	11.82
$ 20	Bnde (Brazil)	9 1/4	'84 Jul	82 1/2	22.04		11.21

(Continued on Page 18)

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International Herald Tribune
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A MONDAY, NOVEMBER 29, 1982

EUROMARKETS

PART I

A SPECIAL REPORT

Part II will appear tomorrow.

Fear of Growing World Debt Stalls 2 Decades of Tumultuous Growth

By Carl Gewirtz

PARIS — Two decades of tumultuous Euromarket growth ended abruptly this year, stalled by fears that the widening debt crisis of developing countries and Eastern Europe could trigger an international banking crisis to match that experienced in the Great Depression of the 1930s.

The slowdown is both a result of the feared crisis and a cause, for as banks rush to reduce their international exposure out of fear they will not be repaid they risk starving good creditors of essential financing and exacerbating the plight of their ailing customers.

As a result, central bankers now have a new worry. After decades of admonishing Eurobankers about the unbridled growth of the market and the need for more caution, they are now exhorting them to maintain the flow of funds to prevent financially pinched but credit-worthy states from being driven to the wall by the lack of new credits.

To emphasize their point, the central bankers, acting through the Bank for International Settlements, provided $510 million of short-term finance to Hungary at mid-year and in late August announced a $1.85-billion package for Mexico. The operation for Mexico was extraordinary — the first loan ever extended by the BIS to a non-member country.

The BIS makes it clear it is not offering to bail out the banks or their clients, but rather is providing banking solutions to banking problems on the understanding that a longer-term solution is about to be worked out under the aegis of the International Monetary Fund.

"The lesson to be drawn from these two experiences," says Alexandre Lamfalussy, economic adviser to the BIS, "is that the indispensable, although not necessarily sufficient, condition for such a facility is that the country in need of liquidity support should demonstrate its willingness and ability to enter into a stand-by negotiation with the Fund with the objective of reaching an effective agreement.

"This means an unquestionable willingness and ability to undertake realistic and determined policy measures that stand a good chance of re-establishing external balance."

He stresses that while negotiations with the IMF are an "indispensable condition" for the BIS to consider providing short-term bridging finance, "there can be no question of any sort of advance commitment to help anybody who satisfies that condition."

The critical factor appears to be situations where someone has to step in quite quickly to reassure markets. "Whether we can do that on a really large scale and for how long, I simply don't know," Prof. Lamfalussy admits. "But we've tried to do it, and I think it's been relatively successful."

Few would argue with that assessment. In late summer panic gripped the Euromarket. The seeds of the problem were planted earlier in the year when Chase Manhattan and Continental Illinois jolted investors' confidence by reporting major losses resulting from excessively risky domestic dealings that had been based on an overaggressive search for profits.

In the midst of this news, Italy's largest private bank, Banco Ambrosiano, went bust and, although a rescue was mounted for the Italian bank, its Luxembourg financial affiliate — which had borrowed more than $400 million in the Euromarket — was left adrift. The drama for the market was not the money involved but rather that the Bank of Italy could ignore any responsibility for the affairs of the Luxembourg unit — shattering the illusion that doing business with any arm of a bank was as good as doing business with the parent. Also shattering to confidence was the evidence that banking authorities' supervision of the international operations of banks in their jurisdiction was considerably more slipshod than had been imagined.

The really stunning blow to morale was the mid-August announcement of a 90-day moratorium of principal repayments on its $80-billion foreign debt by Mexico — far and away the largest borrower in the Euromarket. For the first time, fear gripped the market that dozens of banks, big and small, could go bust if Mexico's debt turned out to be worthless.

The rapid mobilization of the BIS loan for Mexico gave immediate comfort to the market. Nevertheless, investors began shifting deposits from banks to the iron-clad security of U.S. Treasury bills and notes, and banks began to think twice about which other institutions they were willing to lend money to. As a result the Euromarket's $700-billion interbank market began a countdown to crisis.

The interbank market is the lifeline of the Euromarket. All other transactions are based on it. The pricing of the vast majority of syndicated loans is based on a fixed margin over the London interbank offered rate. And if, in times of crisis, banks cannot acquire funds at Libor but must pay a premium, as began to develop in August, such banks could find themselves locked into a contract to lend money at terms that are no longer profitable. That in itself could set the stage for a cumulative crisis of confidence in banks.

The strains in the interbank market were evident but before a full-blown crisis could develop the Federal Reserve Board let it be known that it was adopting a more flexible monetary policy — a move it confirmed by cutting its discount rate on Oct. 6 — triggering a boom on Wall Street that, at least temporarily, obliterated worries in the interbank market.

But lending has not recovered and banks appear to be in a holding pattern. The debt crisis is firmly centered in Latin America, with all countries tarred by the problems of Mexico and Argentina. This has had a huge impact on Venezuela, which more than any other Latin borrower has relied on short-term loans and is therefore the most vulnerable to the changed mood of bankers. Brazil, which has the second largest debt after Mexico but has skillfully managed its debt, is also having problems renewing short-term deposits.

Lending in the Far East market so far is largely unscathed, although bankers are beginning to worry about the size of South Korea's debt relative to its foreign currency earnings from exports. The Philippines is another worry spot.

Eastern Europe remains mostly off limits, with Poland having to reschedule its debts each year for the foreseeable future and Romania yet to arrive at terms for rescheduling this year's debt. The Soviet Union has made relatively little use of the market, and it remains uncertain how much access Hungary and Czechoslovakia will have. East Germany is a special case in light of its financial relationship with West Germany.

Africa remains out of the main arena of Euromarket borrowing.

The debt of developing countries is current-

(Continued on Following Page)

Bustling Asian dollar centers: The crowded skylines of the business districts of Hong Kong, left, and Singapore.

Boom in Asia Dollar Market Continues; Singapore, Hong Kong Vie for Business

Special to the IHT

TOKYO — These days, finding the center of the Asia dollar market is rather like tracing the whereabouts of a teen-age son. He has a formal home, but he is rarely there. All his important activities are arranged away from home. And on the rare occasions when he is at home, he spends all his time on the telephone.

The Asia dollar spends a similarly peripatetic existence. The formal home of the Asia dollar market is Singapore, where there is a $90-billion-plus market in offshore hard currencies. But the hamburger joint, soda fountain and bowling alley of the market is Hong Kong, where most of the major financings continue to be arranged. However, the telephones are kept busy in Singapore by the booming growth of its foreign exchange dealings, which this year has begun to exceed the volume of forex business done in Hong Kong.

Singapore has been remarkably successful in building up a large pool of Eurodollar deposits in its Asian Currency Units. Unlike the European Currency Unit, which is an artificial composite currency composed of a basket of European currencies, Asian Currency Units are the separate accounting units of banks and other financial institutions that have been given approval to do business in the Asia dollar market. ACUs resemble New York's International Banking Facilities (IBFs) or Bahrain's Offshore Banking Units (OBUs).

The number of banks and other financial houses given approval by Singapore's Monetary Authority (MAS) has risen rapidly in the last few years. The number of ACUs topped one hundred for the first time in 1979 and reached 115 by the end of 1980. There are now more than 130 ACUs in Singapore, and the number is still rising — the latest arrival, in September, was Malayan Banking Berhad.

The volume of funds held in the ACUs has also risen sharply. Five years ago, at the end of 1977, total assets of the ACUs amounted to $21 billion. They reached $27 billion in '78 and then started to grow by more than 40 percent a year in both '79 and '80 to reach $54 billion. Last year, the ACUs' rate of growth accelerated even further as their assets expanded by almost 60 percent, topping $85 billion by the end of '81.

"The buoyancy in interbank Asian dollar market activities may partly be attributed on the supply side to the increased flows of OPEC funds with the reappearance of massive OPEC surpluses," the annual report of MAS for 1980-'81 noted as an explanation for the fast growth of ACUs. "On the demand side, it was linked to the active role of the market in recycling the large inflow of OPEC funds into the international banking system and the increased use of Singapore as a funding center," the report noted.

Conversely, however, a falling OPEC investible surplus tends to lead a slower rate of growth in Singapore ACU assets. That has been the case this year. In recent months the total assets of the ACUs have amounted to around $90 billion — a scant 6 percent above their level at the end of '81.

Most of Singapore's funds tend to come from the London Eurodollar market, with much of the remainder being funneled from Caribbean banking centers and the Middle East. The funds tend to be used by Asian borrowers — the ASEAN countries — Indonesia, Malaysia, Singapore, Philippines and Thailand — as well as Japan, Hong Kong and South Korea.

But although the Singapore experiment with offshore banking centers has been successful in establishing a large and viable market, the ACUs have not succeeded in wrestling dominance of the major international financing market from Hong Kong. When it comes to international syndicated loans, Hong Kong remains ahead.

This year, for example, Hong Kong has been the venue for around 80 syndicated loans, worth in aggregate more than $4 billion. Singapore, on the other hand, has hosted only about 30 loans, with a total value of under $2 billion.

Loan signing venues are not an infallible guide to the relative financing status of Hong Kong and Singapore, but they do serve to show that Hong Kong is still some distance ahead. Singapore arranges some large international loans — Bentoc Ltd. of Australia signed its eight-year $200-million credit in Singapore at the beginning of October, for example — but the biggest regional loans tend to be arranged and signed in Hong Kong.

This is particularly true of large regional project financings. Bougainville Copper of Papua New Guinea signed its $225-million nine-year credit in Hong Kong in September, with BA Asia acting as agent and Commonwealth Trading Bank of Australia as joint lead manager. And CSR Ltd's $950-million financing of its purchase of Delhi Petroleum's stake in Australia's Cooper Basin oil and gas field was also signed in Hong Kong, in August.

One of the biggest project financings to be arranged in the Euromarkets — New Zealand's Synthetic Fuels Corporation's $1.7 billion — was also syndicated out of Hong Kong. Although the credit was formally signed in London (at the end of July), the books were run by Citicorp International Group through Citicorp's joint venture with Fuji Bank in Hong Kong, Asia Pacific Capital Corp. (APCO).

Hong Kong's ability to do more syndicated loan business has stemmed mainly from the colony's low tax rates on corporate income, its largely unrestricted financial markets, its proximity to two frequent Euromarket borrowers — South Korea and Taiwan — and the snowballing effect of a headstart. The more banks that established in Hong Kong, the more that wanted to join the action. Singapore, on the other hand, has had a rather more artificial growth. It has natural advantages through investment links with other ASEAN countries but a more regulated financial structure that depended largely on the exemption from withholding tax on interest in offshore ACU deposits for its success in holding Asia dollars.

At the end of February this year, Hong Kong moved to increase its attractiveness relative to Singapore by scrapping its 15-percent withholding tax on foreign currency deposits. How far that will pull funds from Singapore,

(Continued on Page 10S)

Creditors: The North American Lesson

European Banks, After Scoring in Loan Market, Discover Debt Rescheduling

By John M. Berry

WASHINGTON — European banks that aggressively began to compete several years ago for loan business in the North American market have learned, as one U.S. banker put it, "here we tolerate bankruptcies."

Each time another major corporation in the United States, Canada or Mexico is added to the list of those bankrupt or close to it, or at least facing a serious need to restructure large debts, European banks invariably show up among the creditors looking for a way to recover their money.

International Harvester, AM International, Dome Petroleum, GHR Cos. and Wickes Cos. are just a few of the companies in the financial soup this year, and all had European bank loans separately or through loan syndications. Perhaps as a result, some of the banks are pulling back, their American competitors believe.

In Mexico, of course, no new loans are being made. Rigid exchange controls and a severe shortage of foreign exchange have halted all payments due foreign banks on loans both to government entities and private companies. Only interest has been paid since August, a situation likely to continue until additional foreign exchange is obtained through an International Monetary Fund loan tentatively agreed to on Nov. 11. A resumption of repayment of the $85 billion in outstanding bank loans also depends upon completion of a debt restructuring agreement that will involve new loans and a stretch out of terms.

Mexico has told bankers that it is preparing comprehensive proposals to restructure its debt. It is seeking to obtain — and is expected to be granted — an extension of 120 days on the 90-day postponement on principal payments, which began August 23.

No one knows the amount of European loans now outstanding in the United States. The figures published by the Federal Reserve showing non-bank business liabilities to foreigners are notoriously poor, even Federal Reserve officials admit.

Officially, such financial liabilities stood at just under $14 billion late last month, a level virtually unchanged over the last 12 months. About half the amount is owed to Europeans.

But everyone agrees that the actual number is far larger. "Most of the foreign activity is hidden," explained an official at a large New York bank who tries to keep track of his competition. "My personal judgment is that the figure may be two or three times as large as the $14 billion we know about."

In the New York area, where many foreign banks have offices from which they may book loans directly or route the business through an offshore lending facility, "upwards of 30 percent" of all the commercial and industrial loans are held by foreign banks, mostly European, another New York banker declared.

"Whether it's 20 percent, 30 percent or 40 percent, what's the difference. It's a large number," he said.

The total of such loans at all large U.S. banks is around $210 billion. At two times the published figures, foreign banks would hold roughly one-eighth of the U.S. market. At three times, they would have about one-sixth.

Both the American bankers and the Federal Reserve would dearly love to have a better handle on the level of these transactions and their ebb and flow. The bankers would like to know for competitive reasons, the Fed so it would have better information about credit conditions and the role of foreign banks in the United States.

The foreign bankers booking this business often is just as determined to keep any competitive edge the added secrecy gives. They are just as intent on keeping their European competitors in the dark as the U.S. banks. Channeling loans through offshore locations such as the Netherlands Antilles may also reduce U.S. tax burdens.

Another point of agreement is that the amount of these loans from foreign banks is no longer growing rapidly, if at all, and that the growing list of bankruptcies is one factor.

Published figures, for instance, show virtually no increase in these loans over the last year. That is in sharp constrast to the record of the previous three or four years when the European banks were really going after loan business in North America.

"The foreign banks definitely are less aggressive than in the past," one of the U.S. bankers said. "It's not just that the banks are at risk with some of the bankrupt companies. It's a function of those names [of the troubled companies] and the depth and breadth of the problem. There are a lot of names with problems and most are not publicly well known.

"Even if the foreign banks wished to keep up their aggressive lending, they're spending more time these days working on their problem loans than on marketing," the U.S. banker said.

In the case of International Harvester, the severely troubled truck and farm equipment manufacturer, 193 banks have had to agree to major debt restructurings. No list of the banks or their exposure has ever been made but the company confirms a number of European banks are involved. "They have been very supportive," a Harvester spokesman said.

That support in the latest debt restructuring took the form of agreement for additional postponement of debt repayment and converting up to $350 million of debt into equity.

In two other well-publicized cases in which more details are known, the degree of exposure some European banks have accepted has startled American bankers. In one, the Banque de Paris et Pays Bas, or Paribas, emerged in September as the largest lender to the GHR Cos., a little-known privately held American oil and gas company whose principal assets are about $1 billion worth of oil and gas reserves and a refinery in Good Hope, La.

GHR, whose predecessor company emerged from a bankruptcy proceeding only in 1980, owes $750 million to a group of 14 banks, including $245 million to Paribas. The Banque Arabe et Internationale D'Investissement is owed $25 million, a Canadian bank $10 million and the remainder is due U.S. banks. The largest U.S. bank loan is $165 million from Continental Illinois National Bank & Trust Co.

GHR is in a cash bind as a result of an expansion undertaken since 1980 and financed by the large loans. To work its way out, the

(Continued on Page 11S)

EUROMARKETS

World Bank Officials Term Co-Finance Solution to Third World Loan Problem

PARIS — Co-finance — linking commercial banks with official institutions in lending to developing countries — is a concept whose time has come, World Bank officials believe.

The concept, initiated a decage ago, never really fired up bankers and to date only $3.7 billion of such loans have been arranged under the auspices of the World Bank. To put that figure in context, it represents less than 2 percent of total medium- and long-term commercial bank loans to the developing world.

But now, with bankers fed a daily diet of woes about Third World credit risk and with international bank lending slowing as more and more countries seek to reschedule their debts, co-finance is beginning to look as if it could have been tailor-made to today's problems.

Put simply, if banks turn off their lending, they will turn lots of good credits into bad risks. The money must keep flowing.

The financial requirements of the developing countries dwarf what the International Monetary Fund, the World Bank and the various other regional lending institutions can supply. Nor is it possible for the top 50 World Class commercial banks, whose farflung interests will surely keep them in the market, to take up the slack if banks 51 to 500 try to pull out.

Thus, a way has to be found to keep new loans coming from the hundreds of smaller banks that have been active internationally in the market. And co-finance may be the answer.

What makes co-financing attractive is the blemish-free record of the World Bank. It has never rescheduled a loan. And as events have shown, borrowers will squeeze to keep current on World Bank finance when virtually all others are allowed to fall behind because the World Bank's clients cannot afford to lose access to its relatively low cost and long maturity funding.

The aim, then, is to extend the World Bank's perfect credit relationship with the Third World to commercial banks, giving them greater assurance that the debt will be serviced and repaid on time.

"There could be a certain amount of switching" from pure commercial bank credit to co-finance, says David Lomax, senior economist at National Westminster in London. But the possibilities should not be exaggerated, he adds. "It does seem a sensible way forward, but it certainly doesn't solve all the world's problems."

An American banker agrees, noting that the World Bank's presence in a co-finance deal would not suffice to get his bank to increase its lending if its internal country lending limit had been reached. On the other hand, Amsterdam-Rotterdam Bank has a special portfolio for co-financed loans that are not counted in Amro's self-imposed ceilings for country lending.

Other regional banks, such as the Inter-American Development Bank, are also actively promoting co-financing but face the same problems and limits as the World Bank.

At present, the World Bank is looking to increase both the scope of co-financing arrangements and their marketability.

The scope to date has been restricted to development projects and programs — agricultural, energy and telecommunications projects whose cash flow can be projected to assure repayment of the loans. Currently, the World Bank is also seeking to engage commercial banks in financing its structural adjustment loans that lack such precise cash-flow projections.

Structural adjustment loans are closer in concept to stand-by loans of the International Monetary Fund than to traditional World Bank project loans. The difference is that IMF loans are rather short-term, running for up to three years, whereas World Bank lending, aimed at improving the export performance of specific sectors, is long-term for up to 20 years.

The World Bank has set a self-imposed ceiling on such lending, which will not exceed 10 percent of its total commitments. Since the program's inception two years ago, only 13 of the bank's 75 active borrowers have concluded structural-adjustment loans for a total of $2.15 billion.

Commercial bank co-finance in structural adjustment loans was solicited for Turkey, which is the biggest user of this World Bank program with three loans totaling $880 million, but the banks balked. This was due in part to their own heavy commitments already outstanding as well as a desire to await new developments in co-finance agreements. Talks are now underway to draw up a plan for Lebanon that could emerge as the first structural adjustment program co-financed by commercial banks.

In studying ways to make co-finance more attractive to banks, the World Bank finds that the major drawback has been the absence of any formal link between the loans commercial banks make and the loan made by the World Bank. They are two separate loan agreements.

Under existing arrangements, the World Bank has the option to consider its own loan in default if the parallel commercial loan is not kept current, but it is not obliged to do so.

Bankers, wary of umbrellas since the one the Soviet Uninn was assumed to carry over its East European allies failed to open, worry that without a more formal link between their loans and the World Bank a borrower could default on the commercial loan and suffer no pain in its relationship with the World Bank.

Evidence that the World Bank umbrella seems to be working does not give bankers much relief since they worry that the next example could be different. Nevertheless, Romania, which is trying to renegotiate its private bank debt, and Mexico, which in August declared a 90-day moratorium on its principal repayments, have kept payments current on their commercial bank loans that are co-finance deals with the World Bank. (Mexico is

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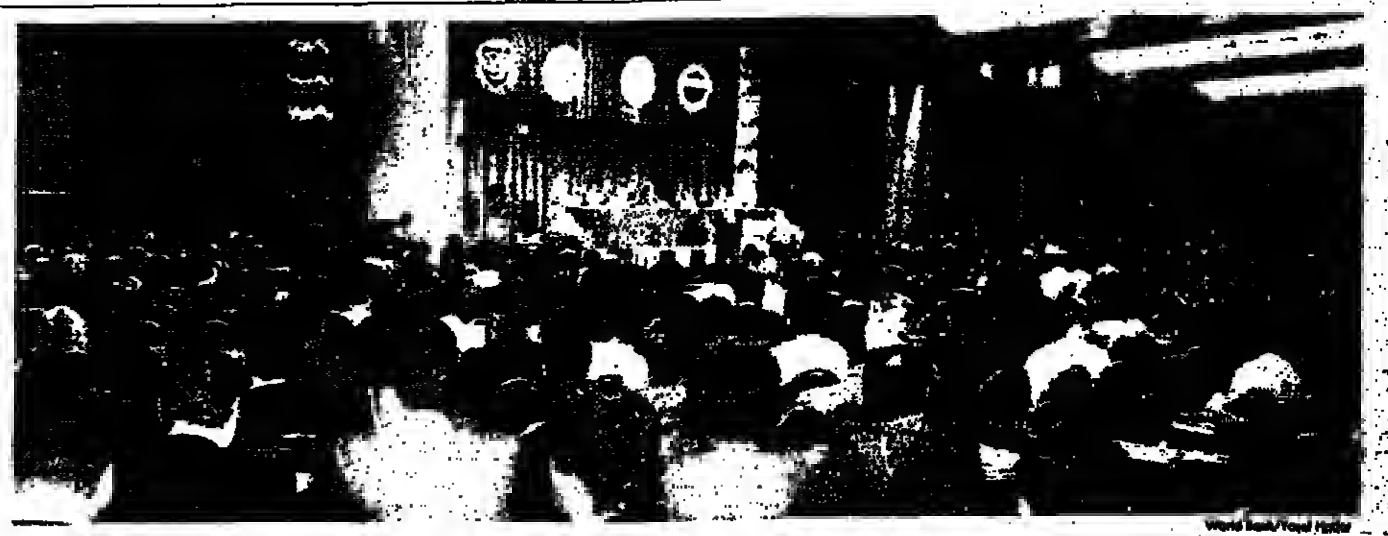

The World Bank and the International Monetary Fund at a joint meeting this year.

Fear of Widening World Debt Load Slows Down 2 Decades of Tumultuous Growth

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ly estimated to total some $625 billion. The list of countries that are seeking to reschedule their bank debt or that already have runs from Argentina to Zaire and the amounts range from tens of millions of dollars for Uganda to tens of billions for Mexico.

Total disbursed debt of the non-OPEC developing countries is estimated at $520 billion, of which some $365 billion is owed to banks — in the industrialized countries as well as in the Third World, particularly OPEC countries. Deducting the estimated $157 billion these countries have on deposit with banks in the industrialized countries (such data is not available from banks in the Third World), the estimated total exposure of banks amounts to $208 billion.

However, some $50 billion of the bank debt is guaranteed by official export credit agencies — reducing the net exposure of banks to the non-OPEC developing countries to some $158 billion. Four countries — Argentina, Brazil, South Korea and Mexico account for 89 percent of this net exposure.

In fact, some two-thirds of the total debt owed to banks by developing countries is concentrated in only 12 states that are well positioned to service it — provided there is a sustained economic recovery in the industrialized countries. Five are oil exporters — Algeria, Egypt, Indonesia, Mexico and Venezuela. And the others — Argentina, Brazil, India, Israel, South Korea, Turkey and Yugoslavia — are all major exporters of manufactured goods.

Like all developing countries, they have been badly hit by the prolonged recession in the industrialized countries. This has cut the price of their commodity exports — food and raw materials — as well as the volume, especially of oil.

The non-oil developing countries' terms of trade — the prices of their exports relative to the prices of their imports — are estimated to have deteriorated by over 5 percent this year after a drop of 10 percent last year, following years of substantial gains in the 1970s. The volume of their commodity exports, which since the mid-1970s had been increasing at annual rates of 7-to-10 percent, is expected to show a very modest increase this year of 2-to-3 percent.

At the same time, their exports of manufactured goods have been hampered by the slowdown in world demand and increased protectionism.

This combination has substantially reduced the export earnings of these states, leaving fewer dollars to service their foreign debt.

But the cost of servicing the debt increased substantially in both nominal terms — as interest rates soared to record highs — and in real terms. The base rate of Euromarket loans — the London interbank offered rate for six-month Eurodollars — averaged 13¾ percent this year — only modestly below the cost in 1979, 1980 and 1981. But in those years, U.S. inflation was running at 10-to-13 percent, while this year it is less than 5 percent — meaning a "real" interest burden of some 8 percent compared to a low 3 percent in 1980.

Despite the widespread belief that banks were unwise to make such large loans, analysts are satisfied that the bulk of the borrowed money was used intelligently, to finance investments and economic development. The countries just borrowed too much.

Problems arose because government policy — for example, in Argentina and Mexico — was not conducive to sustain the economic growth needed to justify these investments. Other complications arose because government assumptions on future economic environment proved erroneous — for example, Mexico's calculations about the increasing price of its oil exports.

Not to be overlooked is the fact that import demand of the developing countries, financed by bank loans, has been the only growth area for manufacturers in the industrialized countries during the protracted recession. Developing countries account for an estimated 45 percent of Japan's exports, 38 percent of U.S. exports and for some 25 percent of the exports of all industrialized countries taken together.

Reducing the imports of developing countries will mean less business and slower growth for the industrialized countries, which in turn will mean less demand for raw materials and manufactured goods from developing countries unless a self-generated recovery gets underway in the industrialized countries.

What is clear is that the level of development — and imports — the Third World attempted to maintain despite the world recession was and is not sustainable. The borrowers simply could not afford to finance it. Argentina's debt service payments this year, for example, are estimated by Morgan Guaranty Trust to total 179 percent of its exports of goods and services — generators of the foreign currency needed to pay the debt. The figure for Mexico is 129 percent, for Brazil 122 percent, Venezuela 95 percent, the Philippines 91 percent, South Korea 53 percent. By contrast, the figure for Malaysia is a comfortable 17 percent.

Also clear is the fact that while developing countries were ready to borrow as much as they could, banks were willing to lend it. If there was ever any question about what makes banks grow — whether loan demand makes them seek deposits or whether deposits drives them to find loan outlets — the experience of the past decade points to the latter.

Swollen with deposits from the oil-exporting states following the 1973 and 1979 explosions in the price of oil, banks were forced to put the money to productive use — to earn enough income to pay interest on the deposits and still show a profit.

Theoretically, banks could have refused the deposits and indeed, many of the largest banks sought to discourage the inflow by offering to pay below the market interest rates. But in reality banks could not refuse to take the deposits.

To do that would mean dropping out of the race to be the biggest bank or, if not the biggest, to keep their ranking (always measured by deposits) relative to their traditional competitors domestically or internationally. In addition, there were real commercial considerations.

"If we refused to accept OPEC deposits," a Dutch banker explains, "they would refuse to accept our letters of credit — which would mean that our own domestic clients seeking to do business in those OPEC countries would have to go to another bank to get the necessary letters of credit." The assumption was that the client would also take the rest of his business to that other bank.

So the banks took the deposits and then had to find ways to employ them. With recession in the industrialized countries reducing domestic demand for loans, banks were more than receptive to the requests from Eastern Europe and the Third World — especially as these loans were often used to finance the purchase of goods and services from the recession-plagued domestic customers of the banks.

As already seen, 12 of the most advanced developing countries accounted for the bulk of the demand and as these so-called newly industrializing countries were also the most credit-worthy of the Third World borrowers, banks ardently competed for their business. This competition put the borrowers in the drivers' seat.

Maturities were stretched from the five years prevalent in the early 1970s to nine years late in the decade and some loans were granted for as much as 18 years. At the same banks' lending margins were shaved from over 1 percentage point above Libor to as little as ½ point.

In the rush to find new business, banks failed to pay sufficient attention to the fact that their lending was becoming dangerously concentrated in a few countries, that their low-cost loans were not generating sufficient profits to enable them to increase their capital base in proportion to the growth of their assets (loans) and liabilities (deposits). And by the time Mexico said it needed a moratorium, banks had become dangerously overexposed.

Bankers are convinced that the problems are manageable — that no major sovereign borrower would or could default and repudiate its debt. If that were to happen it would be a major catastrophe for a number of big bank which could see their net worth wiped out.

But bankers reason that the borrowers need access to new loans to finance their continued growth, that default would seal off that access for a generation or more and that, therefore, if

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EUROMARKETS

Debt Relief: Poland's Case a Landmark

Acrimony Prompted Western Banks to Systematize Rescheduling Procedures

PARIS — When the history of sovereign reschedulings is written, Poland's request for debt relief from commercial banks in early 1981 will rank as a landmark.

Poland was not the first state to seek relief. And although its $13-billion bank debt was at the time the largest rescheduling exercise private bankers had ever undertaken — and the first with an East-bloc state — the impact on markets was negligible compared to the terror that was struck when Mexico this year announced it was forced to declare a 90-day moratorium on repaying the principal on its $64-billion public sector foreign debt.

What marks the Polish exercise for special note was the acrimony it generated among bankers and the subsequent decision by senior management at leading banks to professionalize such operations. The post of rescheduling officer was born out of that acrimony.

As the debt problems get bigger — banks are owed some $25 billion from public and private sector borrowers in Argentina and about $57 billion from public and private sector Mexican borrowers — the posts have been expanded and in some banks whole departments whose major task is to direct such negotiations have sprung up.

There are a number of reasons to explain these moves, not the least being a desire to avoid having to re-invent the wheel each time a new bank team is sent to negotiate a new rescheduliog.

But interviews with the executives involved show that foremost in the minds of bankers is a determination to avoid the fractious infighting between lenders that marked the first round of the Polish debt talks.

There was considerable dissension within the U.S. banking community, as witnessed by the game of musical chairs played by banks participating io the U.S. steering committee, and between the Americans and the West Germans, who beld the bulk of the Polish debt.

Morgan Guaranty, which was part of the original group of leading U.S. banks representing American lenders, was an early dropout from the steering committee. The chairmanship of the committee rotated with unnerving regularity from Bank of America to Bankers Trust, to Manufacturers Hanover, to Bankers Trust, to Citibank, to Bank of America and back again.

Defamation laws prevent printing the comments that members of this group make about each other. The friction was further heightened by the tough line adopted by Bankers Trust on the need to establish conditionality — seeking from Poland specific economic targets that would have to be met if the rescheduling agreement were to remain on track.

Burned by their earlier experience io 1978 in Peru, where banks sought to impose their own conditionality — a task traditionally left to the International Monetary Fund — bankers generally opposed Bankers Trust because they were reluctant to again put themselves in a position to become the whipping boy of local politicians.

There was more support for Bankers Trust's insistence that Poland supply its lenders more complete and up-to-date information on the country's finances and economic performance, but this ran into stiff resistance from the Europeans, especially the Germans whose goal, the Americans say, was to get an agreement as fast as possible.

Left out of the agreement that did emerge was any mention of (mostly European) short-term debt and interbank exposure. The understanding, the Americans say, was that these would be maintained at prevailing levels. In fact, this short-term exposure was rundown as fast as the payment dates allowed, depriving the Poles of essential day-to-day liquidity and deepening their financial crisis.

To this day, bankers involved in the rescheduling argue about who promised to do wbat. Participants remain embittered about the experience.

"I don't think that the Polish experience was a particularly enlightening one," says a leading West German banker. "But all other reschedulings before Poland were small fry, involving five or maybe 25 banks — but not 500. In all previous reschedulings we had a small group of banks that absolutely domioated the negotiations...who were able to carry the ball and pull everybody else along. But everybody else amounted to another five or 15 banks, not 480. That is the basic difference."

> *What marks the Polish exercise for special note was the acrimony it generated among bankers and the subsequent management decision at leading banks to professionalize such operations.*

Morgan was one of the earliest to decide a better way had to be found to handle reschedulings and in mid-1981 appointed Leighton Coleman, who for many years headed its loan syodications department io London, to tackle the problem.

While a number of major banks continue to leave rescheduling responsibility to the senior executive responsible for the geographic location of the debtor, Morgan has adopted a more formal system of funneling the discussions through the same executive regardless of where the borrower is located.

At the same time, Morgan aims at keeping flexible by pulling into its negotiating team its area people who bave had regular personal contact with tbe finance ministry and central bank.

Others, like the Bank of America and the leading French banks, continue to favor a regional approach to such talks. But in the United States, West Germany, the Netherlands and Britain, bank spokesmen report an approach akin to Morgan's. At Amsterdam-Rotterdam Bank, for example, Peter C. van Gool, a deputy general manager, coordinates sucb operations that are handled on an ad-hoc basis, but by next year he expects a special unit will have been ereated to handle the problems of identifying total bank exposure and assuring continuity in arriving at a rescheduling agreement.

Mr. Coleman observes that Morgan "decided to center the knowledge that comes out of working on these problems in one place, so that person could be of help to the banking division when particular problems arose within specific geographic areas."

Talking about the special group that Deutsche Bank has set up to handle these questions, Christian Vontz, an executive vice president of the international division, notes that "we try to mix administrative expertise with the knowledge of the area. You have to have a basic knowledge of bow to approach things...to develop together with the borrower and the other banks a formula on which to proceed."

The emphasis, the bankers stress, is working together as a team with the banking division, which was responsible for originating the loans and which remains "relationship oriented."

"What I bring to the negotiations," Mr. Coleman explains, "is some sort of continuity, of what has gone on in past instances and atteotive not to set precedents that could govern future problems. I bring an ability, hopefully, of being able to help in negotiating, to determine what will or will not be acceptable to banks."

He adds, "We all have a common goal, bringing a country back so it will be able to re-enter the marketplace, so it's creditworthy again."

There are often differences of opinion about how that is best accomplisbed, but Mr. Coleman shrugs this off as the nature of things in a new phase of the banking business.

"There is a nucleus of people now who are involved, who see each other oo a continuing basis as countries around the world get themselves into these types of problems...The working relationship becomes a lot easier as we get to know each other personally, what to expect of the other."

Probably the most elaborate system has been set up by Bankers Trust, mainly because it felt frustrated by its inability to make headway in urging a tougher agreement on Poland.

Headed by Lou Schirano, who, like Mr. Coleman, spent years in London heading the bank's syndicated loan department, Bankers' risk maoagement division has a mandate to cut across internal divisional and departmental lines "to bring to bear the skills we feel are necessary to solve a particular problem situation," says Mr. Schirano.

Rescheduling will not be the unique scope of this group, which by early next year will be staffed with nine senior officials. It will also tackle credit analysis and policy as well as credit training.

"We're trying to set up a team eoocept," says Mr. Schirano, "whereby we would have people of different skills and knowledge within the bank brought together to deal with particular problems. How many of those people and

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World Bank/Yosef Hadar

A.W. Clausen, left, assumes presidency of the World Bank from Robert S. McNamara, right, last year.

Co-Finance Seen as Third World Loan Solution

(Continued from Preceding Page)

seeking to obtain — and is expected to be granted — a 120-day extension to its declared August moratorium.)

But if co-finance is to live up to expectations of drawing loans from banks that today would otherwise prefer to stay out of the international market, then a more solid protection against default and rescheduling has to be included in the formal agreement.

Even the World Bank agrees with this assessment and is studying bow and what it can do to achieve this. A simple cross default clause — if your loan goes bad I declare my loan due — will not work because the World Bank is not prepared to allow a group of private bankers to force it, in a situation where it has no voice, to declare its own loans in default.

One approach under consideratioo is to have the World Bank participate in the commercial bank co-financing. This would give it a voice if the syndicate were ever called oo to declare a default and it would give the commercial banks the comfort of having the World Bank directly involved if a default occurred. What still is unelear, bowever, is what effect a default on a such a commercial loan would have on the World Bank's own loans with the same borrower if these latter loans were kept current.

Current thinking is that World Bank participatioo in commercial credits might resolve private bankers' desire for greater security. But then a major stumbling block is what the banks give in return for this security.

The World Bank would obviously prefer to see a greater volume of finance coming from commercial banks. In an era when the World Bank is becoming concerned about its own constraints oo leoding, it would like to see a minimum commitment on its own part generate a large flow of funds from the private sector.

It, as well as the borrowers, would also like to see commercial loans extended for longer periods than banks are currently willing to lend. And the borrowers obviously would also like to see lower loan charges in exchange for the improved security co-finance provides lenders.

With each of the participants baving a different view of the trade-offs and each waoting the benefits without any cost to themselves, co-fioance has been slow to get off the grouod. For the most part, the major international banks have preferred to do their own project finance at their own terms.

One possible resolution is for all parties to decide on seeking longer maturities. The World Bank participation in the commercial credit would not involve its putting up any mooey, but rather guaranteeing to take over the loan after, for example, year eight. And each year into the loan, assuming bankers remained satisfied with the performance, the commercial lenders could agree to roll that guarantee's effectiveness forward another year.

The annual extension of the World Bank guarantee would have the commercial banks providing long-term finance and it would free the World Bank from having to tie up its own cash resources.

One thing is clear: commercial lenders would like a better focus on what co-financing is expected to achieve "If the aim is to raise more money than might otherwise be available, then they shouldn't try to squeeze on the margin or stretch the maturity," says one New York banker specializing in co-finance.

A decision by the World Bank on how it will restructure its co-financing deals is expected shortly. But in the words of the bank's assistant general counsel, Tobias M.C. Asser:

"If we want to give protection to commercial banks, we should ensure that the co-finaocing relationship takes place not at the commercial level, where the commercial banks would oot gain anything and the World Bank could lose a lot, but that the relationship is realized at the elevated level of the World Bank's special relationship with its member governments ...so that co-lenders' loans are transformed into a category of lending that enjoys privileges similar to those enjoyed by World Bank loans."

—CARL GEWIRTZ

EUROMARKETS

Boom in Asia Dollar Market Continues; Singapore, Hong Kong Vie for Business

(Continued from Page 7S)

or capture the lion's share of new funds flowing into Asian banking centers, remains to be seen. When the tax was abolished, Hong Kong had less than half the dollar deposits of Singapore. If Singapore does not retaliate, Hong Kong is likely to capture more Asia dollars, but there are plans mooted in Singapore to restore its fiscal advantage by reducing reserve requirements, redefining what assets may be counted toward reserves and cutting tax rates on segments of banking income.

In the meantime, the Hong Kong syndication market is growing in strength, and this year has seen further development in syndicated loans denominated in Hong Kong dollars. More than U.S.$1 billion worth of Hong Kong dollar syndications have been arranged this year, compared with an insignificant U.S.$110 million in the corresponding Singapore dollar market. The Hong Kong dollar market has slowed down a little by comparison with last year because of the downturn in property values in Hong Kong, but it is still an important capital market that has broadened and deepened the range of deals that can be done in the colony.

"In the two years 1980 and 1981 alone," a September economic report from the Hong Kong and Shanghai Banking Corp. stated, "property-related companies raised over HK$10.6 billion" — not far short of U.S.$2 billion — "through syndicated loans; this was approximately 10 percent more than quoted companies in this sector raised by way of new capital issues. The total Hong Kong dollar syndicated loan volume in the past two years equaled the total volume of new capital raised through the stock exchanges. With the prospects for new capital issues having turned gloomy in recent months, the syndication market has now become the major source of finance for large-scale projects."

But 1982 does not show a simple picture of Hong Kong gaining in stature at Singapore's expense. This year, Singapore has overtaken Hong Kong as a foreign exchange dealing center. Daily trading volume in recent months across Singapore's foreign exchanges has averaged between $7 billion and $8 billion.

The impetus behind the boom in foreign exchange dealing has come in part from the increased number of foreign banks setting up ACUs and in part from encouragement by MAS, which has been active in the forex markets in its own right, helping to boost volume through its own trading and through the clear signal to the market that it is keen to see more business done.

Clear signals from MAS have been rare over the past year because of the interregnum between the departure of its managing director, Michael Wong Pakshong, in early 1981 and the appointment of a new full-size managing director, Yong Pung How, in September this year. With the personnel problem out of the way, MAS can now be expected to take an even more active role in the foreign exchange markets, and Hong Kong will find it difficult to make up the ground it has lost.

Singapore has also maintained its lead over Hong Kong as the region's center for Asian dollar securities — bonds, notes and, especially, certificates of deposit.

In the established market for Asia dollars, Singapore has gained this year in currency trading, but otherwise the relative importance of the two centers has not changed appreciably. That picture may be altered over the next year, however, by two new developments.

One is the advent of financial futures in Asia. Hong Kong has been fastest off the mark to enter the financial futures business than either Tokyo — home of several flourishing physical commodity futures markets — or Singapore. In August a committee recommended that Hong Kong should trade four new financial futures contracts that would enable hedgers or speculators to back their judgment on four financial rates — short-term dollar interest rates; short-term Hong Kong dollar interest rates; the Hong Kong dollar exchange rate against the U.S. dollar, and the Hong Kong dollar exchange rate against the Japanese yen. If all goes well, the new contracts could be trading as early as the first half of 1983.

Hong Kong's previous forays into the futures markets have not gone well — although, with Tokyo, it is one of Asia's premier markets for spot trading of gold, Hong Kong's gold futures contract is languishing — but there is every reason to expect the financial futures contracts to do remarkably well. They appeal to the small trader or speculator; the face value of the futures contracts has been kept rather smaller than corresponding contracts on the American futures exchanges. That in turn means that users of the contracts have to post a smaller "margin," or deposit, to enter the market.

They have also appeared on the scene at a time when the Hong Kong dollar and the yen have been very volatile in value on the foreign exchanges, and that tends to help the use of financial futures — there is simultaneously greater need for protection against exchange rate changes on the part of traders and greater opportunity to exploit large rate movements and make leveraged profits.

Currency instability is likely to help the two Hong Kong currency contracts. The U.S. dollar interest rate contract is already an established contract in the U.S. and offers Asia dollar holders a quick and local means of taking positions on interest rate moves as well as giving the possibility of arbitrage between Hong Kong and the United States, and the Hong Kong interest rate contract is a wholly new contract that matches local commercial needs.

Hong Kong's futures lead is likely to boost its share of the Asia dollar market. There is little difference between forward foreign exchange quotations and currency futures prices; the two can be arbituraged against each other or one used instead of the other.

Singapore's new-found supremacy in forex dealing may shortly be under siege. Coupled with Hong Kong's abolition of withholding tax, its introduction of interest rate futures may also attract deposits from Singapore, again because of the arbitrage possibilities between deposits and interest rate futures.

There is no doubt that Singapore takes the threat from the new market seriously. A twelve member working party, including an observer from MAS, has started to examine how a futures market could similarly be established in Singapore.

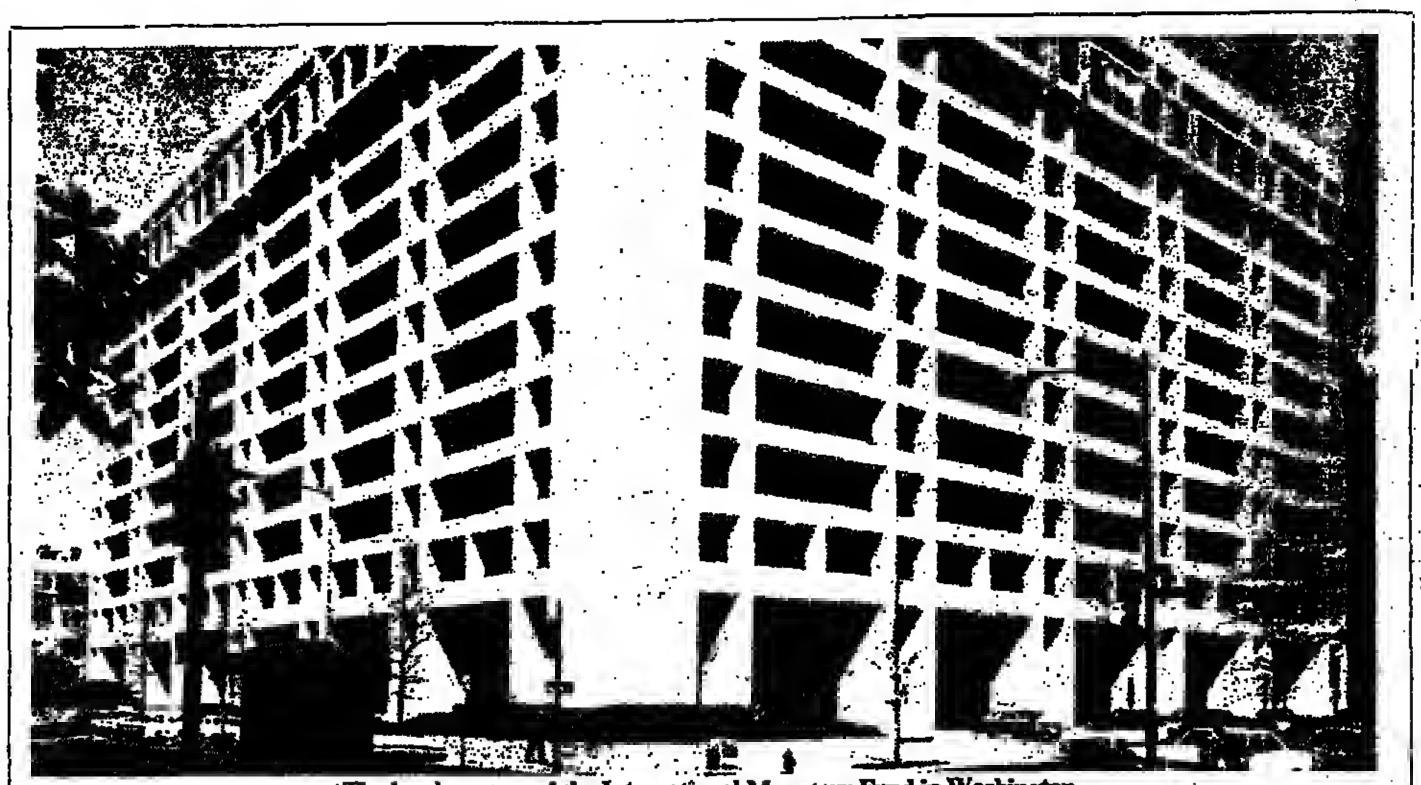
The second factor to affect the struggle for the biggest market share of Asia dollars is Tokyo's awakening interest in establishing its own offshore banking sector.

Potentially, this is an enormous threat to the Asia dollar markets in both Hong Kong and Singapore. It is highly unlikely that all three markets could coexist harmoniously; either Hong Kong's offhsore business or Singapore's would be swamped by Tokyo's.

Tokyo already has a dollar market, though it is not an Asian dollar market in the sense of footloose offshore dollars. It is an interbank call market restricted to residents, and holds about $25 billion in funds. But there is a huge demand for further dollar business. Bankers in Tokyo beleive that if an offshore banking center was established, it would immediately attract around $100 billion in funds, putting Tokyo on much the same level as New York's IBFs and immediately surpassing both Hong Kong and Singapore. Some of those funds would be diverted from the European Euromarkets, some from the United States. But some, undoubtedly, would also be siphoned away from other Asian centers.

The advance of Japanese banks and securities houses into international finance has led them to ask themselves why they need to maintain expensive operations in London or other Eurocenters, when they could transact their business far more easily in an offshore enclave in Japan. Foreign banks and houses are equally keen to get a fonthold in Japanese territory, and some are banking on further liberalization of Japan's fioancial markets that will enable them to parlay an offshore license into the domestic market.

There is no clear timetable in Tokyo for the establishment of an offshore Asia dollar market, but there is a strong current of sentiment running in favor of ooe when the wobbly yen recovers enough to allow it. And then the question is going to change. It will not be whether Hong Kong or Singapore will capture the Asia dollar market? It will be, which will survive?



The headquarters of the International Monetary Fund in Washington.

THIRD WORLD DEBT AND BANKS

The origins of the problem can be found in the distinction between moneychanging and banking. A bank is a temple and a temple guards the grain. Here is the origin of commercial banking as first practiced in ancient Egypt some 5,000 years ago. Unless multinational bankers are able to come to terms with their source, the global financial systems, notwithstanding the regulators, inevitably will become as fragile as a cobweb in an autumn storm.

By Richard W. Lombardi

PARIS — The word *krach*, designating a crack in the global banking system, is spreading quickly across Western Europe, after having found its way recently in the Anglo-American press.

Bankers are apprehensive of *krach*. Indeed, when the alarm sounds, one is forced back to the realizatioo that banking is faith oot money, confidence not ratios. Clamorous language strikes at the very heart of what banking is all about. The language questions the *raison d'etre* of the program.

The oumbers, however, bave forced the issue into the open. The public at large is asking the hard questions about the impact of multinational banking in the Third World. And the questions likely will become harder and harder to answer unless alternative lending methodology can be devised and accepted by the international banking community.

First the oumbers. Most bankers will recall that their capital ratios — borrowed money against shareholder investment and reserves — have more than doubled over the last 10 years, from about 10-to-1 to in excess of 20-to-1.

Similarly, there has been a radical shift in the completion of bank assets. Among the top 10 U.S. hanks, Third World debt on average exceeds 325 percent of capital and reserves. Claims on non-OPEC developing countries alone oow surpass 10 percent of total U.S. bank assets. These claims include neither loans extended to Eastern European countries oor credits to such oil-exporting developing states as Venezuela, Algeria, Iran, and other Third World borrowers. The figures are even more impressive for a oumber of major European banking bouses.

In the end, poverty in Mexico, Nigeria, or Indonesia now has an immediate impact on the condition of our financial markets in Zurich, London and New York. Until recently, the scenario was different. Prior to the 1970s Third World lending was concentrated in the hands of bilateral and multilateral aid agencies. The aid agencies were responsible, almost single-handedly, for promoting the development process.

Commercial banks were lured into the Third World market as a result of inflationary pressures coming out of the Vietnam War and attendant excess liquidity channeled through the Eurodollar markets. Subsequent OPEC oil price increases redoubled pressure on the banks to serve as financial intermediaries between "the rich nations and the poor nations."

Today, private commercial banks account for nearly 65 percent of the foreign financing needs of the world's poorest countries. These needs, according to the International Monetary Fund, are projected to increase by about $125 billion per year for the next three- to five-year period. Already, combined Third World and Eastern European debt owed to Western creditors, public and private, has reached the staggering figure of $824 billion. At the same time, commercial bank debt currently makes up some 84 percent of total debt service requirements coming from Third World countries.

The commercial banks, then, would appear to find themselves at the eye of a financial storm, a position that most bankers neither anticipated nor cherish. Yet, as a financial disorder of important dimension looms on the horizon, the first reactioo of many a bank is to withdraw into a smaller universe where the variables can be more easily controlled. The first victim, of course, could be our global ecooomic order in its entirety.

Indeed, the financial storm would affect not only the "development process" in the Third World but in the First World as well. For it is not an exaggeration to say that our financial, even political, systems in the West are in many ways tied inevitably to the outcome of Third World economic development.

The United States now sells more goods and services to oon-OPEC developing countries than to the European Community, Eastern Europe, the Soviet Union and China combined. Already, in the United States about one job in 20 in manufacturing exists to meet demand for U.S. exports to the Third World. Similar figures for most European countries are yet more revealing. Common Market countries as a group now export 300 percent more to the Third World than to North America. Ac-

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The author is o banker and author who specializes in Third World development.

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EUROMARKETS

East European Debt: To Many a Bullish Western Banker, the Issue is Rescheduling

By Ian M. Gummer

PARIS — American and West European banks in particular have poured loans into Comecon countries over the past decade in the belief that it was a growth area for business and that if any debt problem should arise the "umbrella" — the Soviet Union — would open and cover the debt of any of its wards that found itself in trouble.

Soviet financial custodians, however, have troubles of their own, and despite reports in the West of an increase over the past year in sales of gold to raise foreign exchange, the Soviet Union has tied a knot in its purse-strings that it unties with eagerness only to put borrowed cash into the bag.

Last year the Soviet Union increased its debt to the West by $6 billion, to a total of $19.5 billion, according to the United Nations Economic Commission for Europe. With foreign currency requirements of this magnitude, for grain imports and purchases of equipment abroad to exploit natural gas reserves, the Soviet Union has been a reduced lender to Poland and Romania.

East European member countries of Comecon — the Council for Mutual Economic Assistance made up of the Soviet Union, Poland, East Germany, Hungary, Czechoslovakia, Romania, Bulgaria, Cuba, Mongolia and Vietnam — owed Western and Japanese banks and institutions a total of $80.7 billion at the end of 1981, up from $72.4 billion in 1980, according to the Economic Commission for Europe.

Of the 1981 total, Poland headed the East bloc league table with debt to the West amounting to $22.4 billion — well ahead of the $19.5 billion owed by the Soviet Union, which, because of its vast size and wealth of resources, is in no way financially comparable to Poland.

Next on the list is East Germany, with $11.3 billion of debt, followed by Romania with $9.6 billion owed to Western countries.

The increasing Comecon debt, accompanied by requests for rescheduling, caused bullish Western lenders suddenly to draw in their horns, and loans to Eastern Europe this year have practically dried up apart from small credits granted to the Soviet Union, Yugoslavia (which is outside the Comecon bloc) and Hungary.

Comecon countries have been sorely affected by the recession in the West, worsened terms of trade with the Soviet Union and higher costs of oil, even though East European oil-importing countries benefited since 1975 from low-priced Soviet oil.

This year, however, Soviet oil is costing Comecon importers about 30 percent more because the Soviet Union has raised prices in accordance with an agreement under which prices are set as an average of world prices during the previous five years. The second OPEC oil price shock of 1979 is now beginning to affect the East European bloc's oil importers.

Hungary is an exceptional case among the Comecon countries. It joined the International Monetary Fund this year, the second, after Romania, of the East European bloc countries to do so.

However, Hungary remains somewhat tainted by the same tarbrush as other Comecon countries, a Western banker remarked, even though it is considered a better risk than most. It has shown small trade-balance surpluses in the past two years — $221 million in 1980, a sharp turnaround from the $400-million deficit of 1979.

The country also produces about one-fifth of its needs in oil and receives the rest of its supplies from the Soviet Union at prices lower than those on the world spot market, paying in rubles and a small portion of hard currency.

Hungary leads the Comecon countries in allowing a degree of private enterprise and in reducing centralized decision-making in economic matters. It has made successful efforts to get its economy into shape and cautiously open it to world markets, but some Western bankers are beginning to feel nervous about the country's debt of $7.8 billion in 1981.

"The situation is manageable for the present," a West German banker commented, "but we don't want to see another Poland. It's a good thing that Hungary is now a member of the IMF."

One East European country that is a cause of great concern to Western bankers is Romania, less because of its $9.6-billion debt than because of the Romanian government's clumsy dealings with the banks. For several months last year, while arrears on interest payments were building up, the government refused to recognize that it was in difficulty or to meet Western bankers to talk about it.

A decade ago Romania was self-sufficient in oil and, until 1974, world oil prices were low. The country, therefore, invested heavily in oil-refining and related industries, which it found necessary to prop up after expected increases in domestic production failed to materialize and world oil prices quadrupled.

Romania found itself buying costly oil to feed its refineries while demand for its products began dropping as the recession in the West deepened. The Soviet Union had reportedly refused to ease Romania's dilemma by supplying lower-priced oil. Romania had $3 billion of debt to reschedule this year.

Debt servicing by the East European Comecon countries as a bloc amounts to about one-third of export earnings, and Western bankers fear a rise in that ratio as the world recession continues with no signs of an improvement.

Bulgaria, with debt last year totaling $2.3 billion, and Czechoslovakia, which owed $3.6 billion, are considered to be lesser risk problems, but East Germany, with $11.3 billion of debt and about $1 billion of interest to pay this year, has caused jitters in some Western bank head offices.

The West German economic research institute DIW noted on Aug. 11 that the withdrawal of Western banks from lending to Eastern bloc countries could cause difficulties for East Germany, whose industry has been slowed by reduced supplies of raw materials from the Soviet Union and exports to the West that have fallen short of targets.

But the biggest problem of them all is Poland. Poland's financial plight has come to the attention even of readers of popular tabloid newspapers as part of the country's continuing social and political drama. Its external debt totaled $22.4 billion in 1981, according to the Economic Commission for Europe.

Chase Manhattan Bank's David Rockefeller can hardly be blamed for saying some 20 years ago, as quoted by Martin Mayer in his book "The Bankers": "In terms of straight credit risk, the presumption is that there is a greater continuity of government in certain socialist states than in non-socialist states."

Nobody could have foreseen the extent of the present crisis in Poland, which has always been unique in the context of the Comecon grouping, with rich mineral resources such as coal, copper, zinc, sulfur and silver. Industrially, however, the country has remained in the 19th century and Communist central planning and a high degree of mismanagement has done nothing to help the situation.

An economist at Bank of America, Gabriel Eichler, warned in 1975 that unless there were radical changes, "Poland will find itself facing severe financial and economic problems." Edward Gierek had already, in 1970, taken over as premier from Wladyslaw Gomulka following riots over food shortages, and tried to get the economy back on its feet through help from Western banks.

The banks were all too eager to dispose of their Eurodollars and the lending flowed in. Poland's foreign debt doubled in the four years up to 1980.

By February 1981, the Royal Institute of International Affairs in London was warning, too late, in a paper written by Richard Portes and quoted in Anthony Sampson's book "The Money Lenders," that Poland had "a combination of wildly over-ambitious, gravely flawed, voluntarist economic policies; incompetent planning and management, and an especially unstable body politic."

The horse had, however, escaped from the stable, and the Western bankers who began slamming tight the bolts to the door were behind the times.

Among the banks most involved in lending to Poland were the West German banks, which were encouraged to as part of Bonn's *Ostpolitik*. A good part of the lending, although bankers claim they can not estimate it, was done through some of the 29 subsidiaries of West German banks in Luxembourg.

West German bankers in Luxembourg vociferously deny that they were pushed into lending to Poland. Be that as it may, one banker admits that "one big loan was granted to Poland just five months before the crisis started, a loan of 800 million Deutsche marks wholly provided by banks in Luxembourg and principally by German banks here."

Many of the West German bank subsidiaries in Luxembourg declared zero net profit for last year because they had put their profits into reserves against possible losses, the principal risk being Poland.

The general manager of BHF-Bank International in Luxembourg, Ruediger Renne, said recently: "If we get the money back from Poland the [Luxembourg] tax authorities will get their money back, but to be quite honest I can't see that happening in the next 10 years when I look at the political and economic situation in Poland."

On September 14, the Polish government announced that it had agreed to reschedule its debt with 501 commercial banks in an accord similar to that covering last year's debt. About 95 percent of Poland's debt of $2.3 billion in principal due this year will be spread over eight years, with a four-year grace period. The remaining 5 percent would be paid this year.

Two-thirds of the $1.1 billion owed in interest will also be paid this year, the Polish government's chief spokesman, Jerzy Urban, said.

Half of the debt will be lent back by the Western banks through credits over three years, Mr. Urban said. The remaining one-third of the $1.1 billion dollars will be paid next year, he added.

Creditors: North American Lesson

(Continued from Page 7S)

company and its lenders have agreed that interest payments on $450 million of the debt — with the rate pegged at 2½ percentage points above the U.S. bank prime lending rate — will be deferred until June 1984. Meanwhile, the other $300 million is to be repaid directly with receipts from GHR's oil and gas sales, which reportedly run about $12 million a month.

Paribas also is owed $16.6 million by Wickes Cos., a retailer and manufacturer that is the largest American company ever to seek protection of the bankruptcy laws. But that was a smaller amount than that due four Canadian and a number of U.S. banks.

In another case, AM International, a maker of equipment for photocomposition, engineering graphics and similar products, filed for protection from its creditors under Chapter 11 of the U.S. bankruptcy law in April. It had $141 million in bank loans, virtually all unsecured, and its largest lender turned out to be Westdeutsche Landesbank, at $26 million. The loan, a short-term credit, was not part of a $115-million package involving 20 other banks.

AM International had fallen behind its competitors technologically and tried to catch up rapidly. It took on large new debts for a series of acquisitions that did not pay off. Later it was forced to sell off more than half of its 10 divisions, taking large writedowns as a result.

The banks that lent money to GHR are incurring losses because interest is not being paid currently on more than half the principal. With AM International, the lenders could get back only a small portion of what they lent.

In a Chapter 11 proceeding, the company is under the protection of the federal courts and creditors must seek payment of what they are owed through the court. The company can keep operating in hopes that the postponement of having to pay its debts will give it enough breathing room that it can stay in business.

The creditors, in the meantime, try to persuade the court to have the company follow whatever course the creditors believe will result in the largest repayment to them. The process often is both time-consuming and costly for the creditors, some of whom often would prefer quick, outright liquidation of a company rather than a lengthy attempt at reorganization while the company keeps on losing money and reducing the amount ultimately available to the creditors in a liquidation.

These problems come in all different types and sizes. In Canada, Dome Petroleum is in difficulty because of the $4 billion in debt it took on to buy Hudson's Bay Oil and Gas. European and U.S. banks are at odds with the company's four primary Canadian lenders.

Since the acquisition was in line with the Canadian government's express desire to end foreign ownership of much of its petroleum industry, the government is prepared to give Dome a hand. But the first proposal, in the opinion of the foreign lenders, was, in the words of one banker, "one of the most incredible documents the banks in the syndicate had ever seen. It expressly disregarded our contractural rights. Our reaction was immediate and fairly strong, and now it is back in the laps of the Canadian banks and the Canadian government."

That situation must be resolved within no more than 90 days, the banker added, or else Dome will be in default on some of the loans.

In the United States, Chrysler Corp. and Lockheed Corp. both got federal government loan guarantees in recent years. In Canada, Dome has the promise of government help. Beyond those, however, few companies have any prospect of a helping hand from government. The Reagan administration, with a strong free-market orientation, is reluctant even to consider a bailout.

As the continuing recession takes its toll of companies, the foreign lenders are "seeing how a free market operates," says an official of a money center bank that often is in syndicates with European banks. "They came into our market like gangbusters using better credit terms, lower fees, thinner spreads. That's the way you break into markets," he said.

"I don't feel they are suffering proportionately any more than we are, but they are taking losses, just as we are," the U.S. banker noted. "The United States is a tough market, maybe the toughest in the world. After all, if a company can't make it here, it goes bankrupt. In other markets, the government steps in either directly or indirectly."

A counterpart at another U.S. bank added: "Some people here were concerned that the European banks might cut and run at the drop of a hat ... leaving the U.S. banks to act as lenders of last resort. Well, they haven't. The international banking community has behaved very well."

Third World Debt and Banks: A Problem Not to Be Ignored

(Continued from Preceding Page)

cordingly, trade ties and investment patterns were forged, in large part, with borrowed bank money, most of it from the Eurodollar markets.

Given the size of Third World debt, the public is wondering aloud why the banks became involved in the first place in such a delicate venture. The corollary question being posed by most people on the outside is whether the big multinational banks now have the staying power to work themselves out of the current dilemma?

The same questions are being posed by bankers, by bank regulators and by the international agencies responsible for the development process. The major issues were identified in a recent special Task Force Report put together under the aegis of the World Bank and the International Monetary Fund. The report itself confronts the issues of non-concessional money flows to developing countries, that is, bank credit. The highlights that were brought into focus included the size and complexion of Third World debt, capital inadequacy within the banking system, in-house country limits or concentration of assets, the elasticity of the Eurodollar market and projected borrowing needs.

The report concluded that the banking system as currently operating was quite capable of protecting orderly economic growth for the balance of the decade.

In its analysis, however, this Joint Ministerial Committee Report addressed only the topics of banking mechanisms and ratios. The central issue was left aside. The central issue deals with the purpose of multinational banking in the Third World.

When the public asks why the big banks became so heavily committed in the Third World, the response is not simply the profit motive, nor inflation, nor keeping up with the needs of existing corporate clients. These answers are obvious. Intuitively, the public is asking a more basic question. As it turns out, the question has not been posed by the banks, nor by the bank regulators, nor by the blue-ribbon panel making up the Task Force under review.

The question has to do with the purpose of Third World debt: On what has the money been spent? Looked at from this angle, we are back to the *raison d'etre* of the program.

The answer is neither obvious nor particularly flattering. With the massive build-up in domestic and in Euromoney markets, the large, multinational banking houses have come to define themselves firstly as "money center banks" and, more recently, as "financial service industries." There is a brokering element here that denies the very purpose of a bank itself. The excessive number of countries currently in payment default (40 at last count) would indicate that, particularly in the Third World, bankers have not been lending money; rather, they have been "turning money."

The very term "recycling" speaks of moneychanging not investment. The element of moneychanging has influenced marketing strategies and the division of labor within our largest international banks. The function of loan identification and sales has been separated from that of credit analysis or lending in its proper sense. This division of labor, this shift in emphasis — and responsibility — accounts for a number of the abuses that we have seen in the Third World lending patterns of the major multinational banks.

It should not come as a surprise then that those countries that have experienced the fastest run-up in external private bank debt have had likewise the most turbulent domestic economic problems. In more than a few instances, poorly conceived foreign borrowing has resulted in violent domestic inflation, a deterioration in the quality of local investment, and, finally, eventual rupture of off-shore credit for future growth. The case studies abound.

In the Third World, inability to

(Continued on Page 13S)

EUROMARKETS

Leutwiler: BIS Chairman Feels Nations In Heavy Debt Must Cut Down Growth

ZURICH — Io 1948 a 24-year-old student left the University of Zurich with a doctorate in hand, achieved for a thesis with the uninspiring title "Wage Differentials in Switzerland," and with the ambioon of making a career as an economic journalist.

Two decades later, the former student, Fritz Leutwiler, had become a member of the governing board of Swiss National Bank. Six years further oo, he was named chairman of the Swiss National Bank's board and a member of the board of directors of the Bank for International Settlements in Basel. On January 1, 1982, he became, while retaining his posidon at the Swiss National Bank, chairman and president of the BIS.

The Bank for Internatiooal Settlements is known as the central bankers' central bank.

Relaxing in his office in Zurich, the 58-year-old chairman told a visitor: "It has been a very boring career, you know; a very boring career, oot at all fascinating."

"I oever wanted to join a bank or a central bank, never," Mr. Leutwiler said, but in the late 1940's "it was very difficult to find a job." His connectioo with banking began "for want of something better," he added.

In his student days the chairman had written a few articles for specialized publications "to earn a bit of pocket money," he recalled. He bad wanted to join industry or some private company, "but at that time they didn't want economists, they didn't know how to use them," he said.

"Then I got the chance of becoming secretary of the Association for a Sound Currency in Zurich, a kind of semi-official body sponsored partly by the Swiss Naoonal Bank," he went on.

"The associaoon had a press service and I became the editor and wrote for the press service. Then in 1951 I took a year's leave of absence to go to London for training at Swiss Bank Corporaoon, and then Swiss Naoonal Bank offered me a job as a research economist."

Mr. Leutwiler said with a wry smile: "That's how I joined Swiss National Bank. It was never my professional intention, but I stayed, and now I've been here 30 years. And remember, at that time I was a small fisb and didn't know what would become of me at Swiss National Bank. There was a lot of competition. I also had an offer for a job in journalism, but for personal reasons I turned it down and came here."

Mr. Leutwiler said Swiss National Bank is governed by a triumvirate that has full powers for directing the Swiss economy without any form of interference from the government.

"One of the three should be either French or Italian-speaking, belonging to a linguistic minority, one should be Roman Catholic — all this is oot written law, but it's an understanding — and then there is another member at the moment, myself, who is neither French-speaking by birth nor Roman Catholic.

"I am oeither French-speaking nor Roman Catholic, and it's not so easy and it needs a certain favorable constellation of someone like myself to make it up to the top," Mr. Leutwiler said. "I am neutral, a Protestant by origin. I'm German-speaking. I just want to indicate that we have some capable people here who could make it up to the top, but they have the wrong background."

This can hold some people back in their careers, the chairman agreed, and "could allow someone who is not perhaps exactly as capable to get to the top just because he has some qualities that are needed by this unwritten rule."

As chairman of the governing board of Swiss National Bank, Mr. Leutwiler is first among equals, although with typical modesty he insisted that all decisions are taken by agreement among the three members of the board. He allowed, reluctantly, that as chairman and with a presence in the central bank for 30 years, his voice might carry more weight than that of the other two board members.

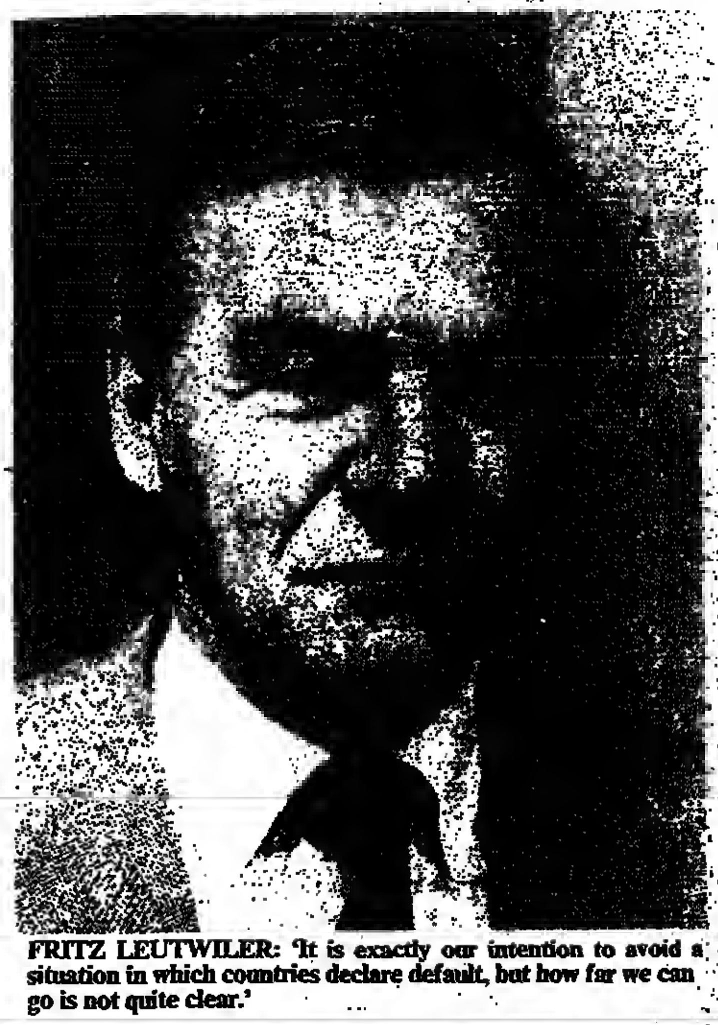
As chief supervisor of the BIS, Mr. Leutwiler has an overview of lending and depositing among central banks. He also presides over meetings of central bank governors, especially the group of 10 leading industrialized countries, and once or twice a year over other central bankers. And BIS, with his involvement, acts as a meeting place for contracts between East European countries, central bankers and those from Western nations.

Oo the subject of loans for developing countries and the role of BIS in assessing the risks of default, Mr. Leutwiler said: "It is exactly our intentioo to avoid a situadon in which countries declare default, but how far we can go is not quite clear." He said that the BIS could act as a first aid and provide short-term loans.

He said that central bankers were studying ways in whicb to improve the flow of information, and he was pleased that commercial bankers are meeting to try to establish a communications system that would provide early warning of impending financial problems in developing countries.

In May 1982 international bankers met at Ditchley Park, oear Oxford, England, and again on Oct. 26 and 27, in New York, to consider what can be done about an estimated $600 billion in international debt that in some cases might oot be repaid.

The North American, European and Japanese bankers are trying to set up an institute that will gather and transmit information about countries that are major borrowers on the international financial markets. It is late in the day, as some bankers privately admit, and creatioo of the insotute is a matter of mooths rather than weeks or days.



FRITZ LEUTWILER: 'It is exactly our intention to avoid a situation in which countries declare default, but how far we can go is not quite clear.'

Now commercial and central bankers are searching for a system of communications that would prevent a repetition of the foreseeable Polish financial problem and the unexpected shock from Mexico. The difficulty is that commercial banks have no institution for such a network and that they are very numerous, Mr. Leutwiler noted.

The key to the problem is in the hands of the debtor countries, Mr. Leutwiler asserted. "Mexico, Argentina, Brazil and others — they must take the measures to put their own house in order," he affirmed. "You have to cut down growth, and one can say that this is not possible in a country where the large part of the population already has a low standard of living. I know there is much hardship involved, but I don't see any other solution."

"We are working on various scenarios, with a view to setting up mechanisms in the case of a crisis in which one country, or even worse, several, were to default," he added.

Asked why it has taken so long for central bankers to think of setting up a communication system that would warn commercial banks against racing headlong into loans to a financially doubtful country, and why, indeed, the banks themselves were not better informed, Mr. Leutwiler said: "In the early seventies governments and central banks were quite happy about commercial banks doing the recycling in a very elegant way. We probably underestimated the future difficulties, but on the other hand what could we have done if we thought banks were going too far in their lending to certain developing countries?

"Are the central banks better placed, so we have more information, than the banks, so that we can tell them, 'now this is the limit.' We are oot in a position to do that. Central bankers were not as close to the front line as the commercial bankers. What supervisory authorities could do was to advise the banks in terms of their exposure as against their own capital."

Mr. Leutwiler's term of office as chairman and president of the BIS is three years, and while "nobody can foresee the future," he said he expected to carry out his mandate.

He offered another hint, noting that "everyone at Swiss National Bank, from doorman to chairman, has a compulsory retirement age of 65." It can be assumed that Mr. Leutwiler will continue to be a major international figure on the financial scene for at least the next seven years.

—IAN M. GUMMER

Women in Finance: Trading and Arbitraging With Ease on the London Futures Exchange

By Stephanie Hanbury-Brown

LONDON — Find your way through the fog of male dominance still swirling around the world of finance, to the heart of the City of London. Negotiate yourself past the red tape and security draped across the entrance to the Royal Exchange, into the London International Financial Futures Exchange. Then elbow your way through the pin-striped suits and jackets of all the colors in a child's tube of chocolate beans, right up to the Eurodollar trading pit. You should see one or two women there.

On the last stage of your "pilgrimage" you may have heard a female voice among the barnyard frenzy that passes for "open outcry" trading. You may have noticed, too, another female figure on the fringe of the activity making wild gestures with her fingers and thumbs: she is relaying prices to a telephone clerk some yards away. Look hard and you will see other women trading and arbitraging with ease and authority.

Women are an important part of LIFFE. Whether their numbers will ever approach the 30-percent level in some U.S. concerns is an open question, but LIFFE in its first two months has already distanced itself from the stale, notoriously confemale London Commodity Exchange, and looks set to leave that other bastion of English male tradition, the London Stock Exchange, trailing in its wake.

So far, women in LIFFE have found their male counterparts pleasingly ready to accept them as colleagues and competitors. A trading floor supervisor with a big commercial bank said: "Whatever discrimination there was soon died a quiet death when the men realized I was there to do the same job. Very occasionally I'm confronted by 'the trading floor is no place for women' sort of old fossils, but they are not too difficult to cope with. I pat them on the shoulder and tell them not to worry about us. 'We are grown-ups,' I say."

Another floor supervisor, with a commission house, said: "LIFFE's attitudes to women are neither better nor worse than many other sectors of the City. They are all behind the times to one degree or another, but the important thing here is that on the trading floor, women have a chance to reach more responsible positions than they ever did in, say, a dealing room."

As yet there are only a few women actually trading in the pits. "At first I got some curious looks," one of them said. "Some men were quite surprised, but their eyebrows soon came down. Being female is no drawback to executing orders, nor to trading with flair — in fact it has advantages. A woman's voice is heard more easily over the din. Some of the male sopranos are aware of it, too."

There is no great secret about being accepted into an overwhelmingly male community. Women know very well that, male or female, if you do a good job, respect will follow. The only difference is that women still have to spend more time earning it. Attitudes are changing, but slowly.

LIFFE is a marketplace in the public eye, and the women who are part of it are suitably proud — no more, no less. Certainly they have an opportunity to prove that they can compete on equal terms with men in a modern financial market — and enjoy doing so. No doubt some will show themselves to be better.

The author is a client adviser with Rouse Woodstock Ltd., London.

Fear Slows Down Decades of Growth

(Continued from Page 8S)

is in everyone's interest that a mutually agreed upon solution be found to restructure the existing debt burden — consolidate the debt and stretch out the payments schedule.

This does not mean that banks will suffer no losses.

As for rescheduling the public sector debt, analysts worry that just as the borrowers were in the driver's seat seeking new loans they are now in the driver's seat requesting rescheduling terms because the lenders have more to lose than the borrowers. If a major country defaults one or more big banks are likely to go bust, but the country will not disappear from the map.

Successful rescheduling, of course, assumes that an economic revival in the industrialized countries will enable Third World debtors to export and earn the foreign currency needed to service the debt. But that revival is nowhere in sight, raising the specter that rescheduling the debt will not solve the problem but just postpone it.

Debt Relief: Poland's Case Became Landmark, Led to Procedure Lines

(Continued from Page 9S)

where they come from will depend on what our role is in any particular situation.

"In some problem-asset situations our role may well be passive — at which point we might have a member of our division plus a member of the appropriate line division just attending the formal meetings, taking notes.

"In other situations, we would expect our role to be considerably more active either because of historical circumstance or the size of our exposure. In that event, one of the senior members of this division would head a team that could very well consist of an economist, political scientist, lawyer and bankers."

Mr. Schirano says the basic skill for any member of his team is "heavy, solid credit skills." Beyond that, he looks for people with "good negotiating skills, people who are practically oriented, who know their own bank very well and who hopefully have had experience dealing with multi-bank-type situations.

"Preferably," he adds, "people who had a foundation in the law. People who can think on their feet and act independently. You also have to have people who can express themselves — present a point of view forcefully, clearly and yet at the same time not alienate themselves from people who is some cases may be in competitive situations but with whom nonetheless one has to work together.

"Decisions made in one part of the world are going to affect decisions made in another part of the world and it seems to us to make no sense to have one set of people dealing with a Poland and another set of people dealing with a Mexico when bank position, bank policy is being set in the handling of both of those things.

"We hope other institutions would put together a group of people with whom one could obtain continuity. It's a lot easier to work with the same people in various situations than to work with a whole bunch of new faces in totally diverse situations.

"If we're going to be involved in these things, you're going to see pretty much the same set of faces all the time.

"You know where we're coming from; you know a lot about us; whether you like us or not, whether we're good people or bad people, but at least there's knowledge there."

Underlying this repeatedly expressed desire for continuity in negotiating teams and strategies is the expectation that this will build mutual respect and trust between banks, will result in a more professional atmosphere and eliminate the grandstanding, the squabbling, the name calling and the dissension that marked the first Polish negotiations.

—CARL GEWIRTZ

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EUROMARKETS

Return of U.S. Presence in Euromarkets Follows Marked Rise in Competitiveness

By Ian M. Kerr

LONDON — U.S. corporations are no strangers in the Euromarkets. They arrived in 1965, multiplied in 1968/'69 as U.S. capital outflow controls forced them to finance abroad their foreign investments and pulled out of the market when the controls ended and domestic borrowing costs moved back in their favor.

Tempting the major U.S. corporations to return was a major problem. They considered the Euromarkets to be too small and too expensive. The Euromarkets were essentially a source of funds to be considered as a last resort.

Times have changed. Gone are the days when astute portfolio managers in the United States could swap from a domestic into a Euromarket guaranteed by the same company and pick up 150 basis points in yield. As long as such unrealistic anomalies existed the Euro-sector was a lender's market only.

In the mid-1970s U.S. corporate primary volume in the Eurobond markets dwindled to a trickle because it was cheaper to borrow at home. U.S. corporate treasurers mistrusted overseas markets, disliked the high issuing cost in Europe and retained a natural preference for domestic borrowing.

The Eurobond market had to become more competitive. That it did so was probably not part of a brilliantly conceived strategy; but neither was it by default. Looking back at this formulative period, the revival of U.S. corporate borrowing in Europe can be attributed to a number of factors, many of which were not directly related. Some of these factors were:

- The yield spreads that existed between domestic and Euro issues in the mid-1970s were gradually eliminated by natural arbitrage.
- U.S. witholding tax on interest payments was not, and still has not been, abolished.
- Monetarism became the key determinant for controlling the Western world's economies, which in turn created unprecedented volatility in the financial market.
- The consistent widening of the U.S. balance of payments deficit increased the government's borrowing requirements to a point where corporations occasionally found themselves totally excluded.
- As the Eurobond market developed in stature, the size of new issues in the primary sector increased. Single-tranche loans of $100 million soon became commonplace. The largest single issue to date has been $750 million for the government of Canada.
- As the domestic market contracted, U.S. corporate treasurers became less parochial and recognized the need for alternative sources of financing.
- Having identified the Eurobond market as the second largest source of fixed-rate dollar funds in the world, U.S. corporate treasurers discovered that international investors had an almost insatiable appetite for investment grade U.S. corporate bonds.
- Demand for top-quality U.S. corporate names reached a level where companies were consistently able to price Eurodollar bond issues through similar maturity U.S. treasuries. In the domestic market this would have been impossible.
- The Eurodollar market has been considerably more innovative than its domestic counterpart. U.S. corporate treasurers found that "concept" loans could be completed easily in Europe when conventional domestic financing was difficult to arrange.
- Many household-name U.S. corporations discovered that their bonds could be marketed in Europe on a lower yield basis than their actual present credit status justified.
- U.S. corporate treasurers realized, a realization long overdue, that the Euromarkets were, and remain, influenced by currency selection. In 1982, therefore, the strength of the dollar against all the traditional "hard" currencies was an important contributor to the market's growth.

Perhaps the only surprising aspect of U.S. corporate borrowing in the Euromarkets is that it did not take off sooner. Some of the blame for this can be attributed to the failure of U.S. corporate treasurers to recognize the obvious viability of the market. There was, after all, no excuse. Exxon, through its offshore financing subsidiary Esso Overseas Finance Corporation, first borrowed in the Euromarkets back in 1970.

Beatrice Foods became the first U.S. corporation to issue fixed-rate Eurodollar bonds below U.S. Treasury yields in April 1978. The seeds were sown.

However, it was only when the arrival of Paul A. Volcker, chairman of the Federal Reserve, heralded a new world of bond chaos that the U.S. corporate treasurers turned their eyes East. Suddenly they found the domestic market quite literally closed for a short period of time. Medium quality companies, even if creditworthy, often discovered that they could not borrow at all. Maturities began to contract and some commentators have argued that this was the catalyst that caused U.S. corporate Eurobond borrowing to surge.

Perhaps this change was only one among a number of influences, but it created a situation where U.S. corporate treasurers found themselves staring at parallels. They may have been astonished to be told that there was simply no longer a market for their 30-year bonds; 30-year bonds were an anachronism.

There was one sector which had the foresight to recognize the changing pattern of investment demand. That sector was the Eurobond market. Having started its life as a long-term market, the Eurobond sector adapted itself to the needs of its lenders whose support was vital for expansion. European investors had viewed 30-year bonds with a healthy degree of skepticism for a long time. For them the analysis was relatively simple: as it was virtually impossible to see three years ahead, a 30-year obligation verged on the absurd for non-institutional investors. Nor had the past price performance endeared Europeans to long-dated bonds. Almost without exception, the purchase of long-term bonds had resulted in short-term losses.

The arrival of intermediate bonds as an integral part of the domestic fixed-income market gave U.S. corporate treasurers no alternative but to consider the overseas option. Now they were faced with a directly competitive market. The Eurobond sector won, at least for the majority of 1982.

Why was it able to upstage its more established and larger rival? The U.S. government itself is partly responsible. By not abolishing witholding taxes, which produce minuscule revenues anyway, the U.S. government effectively closed the domestic market to a larger number of foreign investors.

However, it also is important to recognize that there is no absolute assurance that those same foreigners would enter the domestic market even if interest payments were tax-exempt. International investors are not overly impressed by the fact that U.S. government bonds, arguably the finest security in the world, also are among the most volatile. At the present time, U.S. Treasury bonds are at least twice as volatile as top quality Eurobonds. As most Eurobonds are purchased for maximum capital security, such price fluctuations are considered excessive.

The stage was therefore perfectly set. Europeans wanted tax-exempt securities. They wanted dollar-denominated securities because the U.S. currency was persistently strong. With those considerations in mind, it was only a matter of selection. As the Eurobond sector is the only market in the world which is truly geographically representative, the choice was enormous. Triple-A-rated borrowers such as Canada, France, Sweden, the World Bank and the European Investment Bank were in the market almost every other week. Banks were evident in profusion, particularly with the development of interest-rate swaps.

However which issues did the Europeans really want to buy? They turned, in exactly the same way as in 1974/75 to the U.S. corporate names, even when some yield sacrifice was involved. It appeared that that decision was based on a number of considerations.

- Europeans do not pay a great deal of attention to credit-ratings — French and Swedish bonds for instance simply do not trade on a triple-A basis.
- The well-publicized problems of several major international banks and extensive sovereign credit rescheduling created an almost exact repetition of events. In 1974/75, in the aftermath of price increases by the Organization of Petroleum Exporting Countries, Europeans turned to U.S. corporations that they perceived to be the best credits available.
- The liquidity of U.S. corporate Eurobonds always has been and still is the best in the market.
- Europeans always have had a natural preference for the household U.S. industrial names. Walt Disney bonds, for instance, are unrated. However, in Europe, the company always will be able to borrow funds at a lower cost than even official triple-A credits. Philip Morris is another example of a company whose reputation in Europe far exceeds its humble single-A credit rating.

Is there about to be a slowdown in U.S. corporate borrowing? Not only is the answer no, but it is actually likely to increase. Coca-Cola, Warner Lambert, General Electric Credit and General Foods, all rated triple-A or double-A, have only recently floated new issues. With companies of this caliber electing to go into the European market, others will surely follow.

In the tables below it is interesting to note that more than 50 percent of all U.S. corporate issues in the first nine months of 1982 were rated double-A or better. The former label of being a second-class citizen can no longer be applied in the Eurobond market. U.S. corporate treasurers who have not considered the Eurobond market, and these are surely a minority, are being shortsighted.

At a recent conference in New York, the chief financial official of one of the United States' largest industrial corporations publicly stated that "any major U.S. company which has not established an offshore financing subsidiary to take advantage of borrowing opportunities in the Euromarkets should take immediate steps to do so."

While 1982 has broken every record for U.S. corporate borrowing, analysts have said they expect this volume to be surpassed again next year.

The author is an executive director of Kidder Peabody International Ltd., London.

MARKET NEWSLETTERS

The newsletters' influence on primary markets derives from the power and prestige of their readers. Both circulate in banks, central banks, finance ministries and treasury departments, as well as bodies such as the International Monetary Fund and the World Bank.

By Peter Grange

LONDON — Are international capital markets really markets? And is the international financial community in any sense a community?

A yardstick that can be applied to both terms is to ask "do the people in them talk to each other?" As far as international bond issues and syndicated loans are concerned, the answer is "very little."

The loan syndication manager of a major U.S. bank made the point succinctly: "You can't have a market without an exchange of information, and talking to other bankers is the best way of doing it. But one guy can only meet so many people — I can only eat lunch once a day." So how does he get an overall view of the market? "I read the market newsletters and they tell me what is going on. I know of no other way."

The two newsletters that have fully exploited the failure of bankers to eat more than one lunch a day are International Insider and Agefi International Financing Review, both published weekly in London. Once in print — International Insider in 1972, Agefi in 1974 — they have exerted an influence on international capital markets that owes nothing to the sort of circulations usually associated with the "power" of the press. Agefi is thought to have about 1,200 subscribers, while informed sources say the paid circulation of International Insider is roughly 650.

The newsletters' influence on primary markets derives from the power and prestige of their readers. Both circulate in banks, central banks, finance ministries and treasury departments, as well as bodies such as the International Monetary Fund and the World Bank. "Agefi goes to just about every central bank and sovereign borrower you can think of," said a U.S. banker. "If you are arranging a deal, you have to keep up with what it is saying — and pray it gets your own deal straight."

But if International Insider and Agefi are aimed at the same elite readership, they have little in common when it comes to approach. "We try to give a good journalistic account of the markets," said Andrew Goodrick-Clark, one of International Insider's contributing editors. "We can be much more irreverent than a newspaper because we are not dependent on advertising for our revenue — nor would we ever want to be." This point takes on extra significance as Agefi does accept advertising and recently has undergone a change of format designed to attract more ads. "We set out to gather as much information as possible," explained Agefi's editor and joint owner, Christian Hemain. "And advertising is also information, you see."

For £450 a year (£430 to U.K.-based subscribers), International Insider provides its readers weekly with six pages of news items covering medium-term financing, international bond issues and private placements. Under the rubrique "Snippets," bankers on the move have their appointments recorded for posterity, and the whole is completed by a table listing new bond issues.

Until July of this year, International Insider was owned and written by William Low, a former Financial Times journalist with a flamboyant personality and an aggressive approach toward international bankers and their affairs. Many bankers agreed that the new owner-writers, Christopher Wilkins and Mr. Goodrick-Clark — both used to be with The Times as financial editor and deputy financial editor, respectively — are doing a good journalistic job.

"If anything, they are covering

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The Third World And Growing Debt

(Continued from Page 11S)

service foreign credits represents a quite ugly form of bankruptcy at the national level. An increase in political oppression, a debasement of money and a partial collapse of the distribution channels are only some of the spin-offs.

While it may be true that countries, unlike companies, do not disappear, even those societies that have survived default without massive destabilization only rarely demonstrate a capacity for subsequent balance in their economic growth. Excess seems to breed excess. The biggest bank borrowers among developing countries are all too often precisely those with the most "skewed" development patterns. In other words, foreign bank credit often fuels growth rather than development.

The origins of the problem can be found in the distinction between moneychanging and banking. A bank is a temple and a temple guards the grain. Here is the origin of commercial banking as first practiced in Alexandria in ancient Egypt some 5,000 years ago. Unless multinational bankers are able to come to terms with their source, the global financial systems, notwithstanding the regulators, inevitably will become as fragile as a cobweb in an autumn storm.

EUROMARKETS

Interest Rate Futures Are Now Anchored in U.S. as a Hedging Tool for Investors

By Charles R. Geisst

LONDON — Over the last five years interest rate futures have become part and parcel of the American financial landscape. Their virtues as hedging tools have been extolled many times and their speculative attributes have proved a boon for several commodity futures markets. But in most cases, their hedging qualities have been most valid in the American domestic market where investors hedge like with like.

In the overseas dollar market, the use of interest-rate futures has been more difficult, but not unsuccessful. This is due to the nature of cross-hedging, or hedging an instrument that varies from the underlying futures instrument. This is nowhere more evident than in the Eurodollar bond market.

The author is an associate director at Bank of America International Ltd., and co-author of "Financial Futures Markets," to be published by McMillan in 1983.

Because of their unique nature, Eurodollar bonds are essentially different instruments than U.S. treasury bonds or Government National Mortgage Association issues, known as Ginnie Maes, the cash securities upon which current futures contracts are based. Despite this, hedging is still possible, but the basic difference between these domestic instruments and offshore bonds should be carefully considered.

While U.S. treasury and some corporate bonds may extend out as far as 30 years, the average long-term Eurodollar bond is normally 15 years to maturity. This means that anyone attempting to hedge a Eurobond with a long U.S. futures contract is faced with a significant maturity differential expressing itself in yield terms.

The long-term treasury bond contract is based upon a standard 8 percent of 20 years to maturity. Cash bonds with lives to call of less than 15 years are not deliverable against it but bonds of longer maturity are. Therefore, the most deliverable bonds are those that have current coupons with long maturities.

A potential hedger would therefore be exposed to a significant amount of basis risk: the yield difference between the short and long maturity that may vary depending upon the slope of the yield curve between the two points. In addition, the hedger, and especially the short hedger (who sells contracts short against his cash position), is subject to the ultimate volatility at the long end of the maturity/yield spectrum.

Perhaps more important is the phenomenon equally difficult to qualify in the Eurobond market — that of bonds with early calls of sinking/purchase funds tending to reduce their ostensible lives. In the former case especially, interest rate falls create an environment whereby the borrower may decide to call in the expensive issue and replace it with a lower cost of borrowing. If the call price is below the current market price of the bond, the issue will tend to underperform the market.

This dubious distinction is important for two reasons. First, these bond yields will be calculated on a yield to call basis rather than as a yield to maturity. As a result, they will not be compatible with other longer-term maturities with no call or with low coupons trading at a discount. Second, at these new yield levels, it is difficult to say whether they can be adequately hedged.

A glance at the cluster of Eurobonds maturing between 1989 and 1995 shows that some 200 issues have early call provisions. Those issues with the highest coupons and call features have traded at a yield premium to the rest of the market. While some investors may purchase them on a total return basis, others will not purchase them because of those hefty premiums.

Thus, in many cases the long bond contract is not compatible with these sort of issues and even a partial hedge of less then 1:1 may not necessarily give appropriate cover. This leaves two other contracts in the futures arsenal to consider.

The recently inaugurated 10-year futures contract would, at first glance appear to be the most appropriate instrument for hedging Eurobonds. Its price tends to parallel the 10-year outstanding treasury issues. However, the 10-year contract has not yet proved successful with only the spot (nearest delivery) months being somewhat actively traded.

The same is true of the most theoretically ideal of the treasury futures instruments — the 4/6-year notes. These have never become viable trading instruments. Unfortunately, for the Eurobond market this future appears destined for oblivion. This has been unfortunate because most outstanding Eurobonds are in the medium-term range.

This leaves only one other futures instrument to consider, the Ginnie Mae modified pass-through collateralized deposit receipt, or CDR. This somewhat complex instrument has been largely ignored because of its difficult structure. However, it possesses several features that make it akin to the most recent high coupon generation of Eurobonds.

The Ginnie Mae is based upon an 8-percent security of 30 years maturity. They are not usually referred to as bonds because they are based upon a pool of single-family home mortgages originated by a mortgage banker. The pool is then deposited with a bank, and the agency, which was founded in 1968, issues a debt security against it.

Unlike most American bonds, Ginnie Maes pay interest monthly rather than semi-annually and thus the compounding factor tends to raise their yields above the nominal coupon rate if stated on a semi-annual basis. The contract itself, the collateralized deposit receipt, representing Ginnie Maes deposited against the receipt, is properly called a principal maintenance contract since it uses an adjustment factor to determine how many nominal bonds of varying coupons must be delivered by a seller to satisfy contract requirements.

This is the same process used to determine the number of bonds needed to satisfy the terms of the long bond contract. However, one basic difference exists between the Ginnie Mae contract and the bond contract although both are based upon 30-year instruments.

The Ginnie Mae assumes that the underlying pool of mortgages will be prepaid in 12 rather than extend out to 30 years. This paydown is not, in strict terms, an average life of 12 years, but an implied assumption that the mortgages will have, on average, a shorter life than initially stated. It is this 12-year factor that makes these instruments somewhat akin to long-term Eurobonds.

Ginnie Maes also trade on a yield spread above long-term treasuries, a differential not dissimilar to the Eurobond-treasury [illegible]. Although the agency obligations are fully backed by the government, it is not considered the same credit and a differential of varying degrees has always been evident.

Thus, these two features make Ginnie Mae cash and future yields compatible with Eurodollar bonds, more so than any other current financial futures instrument. But the recent fall in interest rates and its attendant problems have raised questions as to whether former or potential hedging possibilities are currently valid.

As rates have fallen, the Ginnie Maes have lagged behind the price

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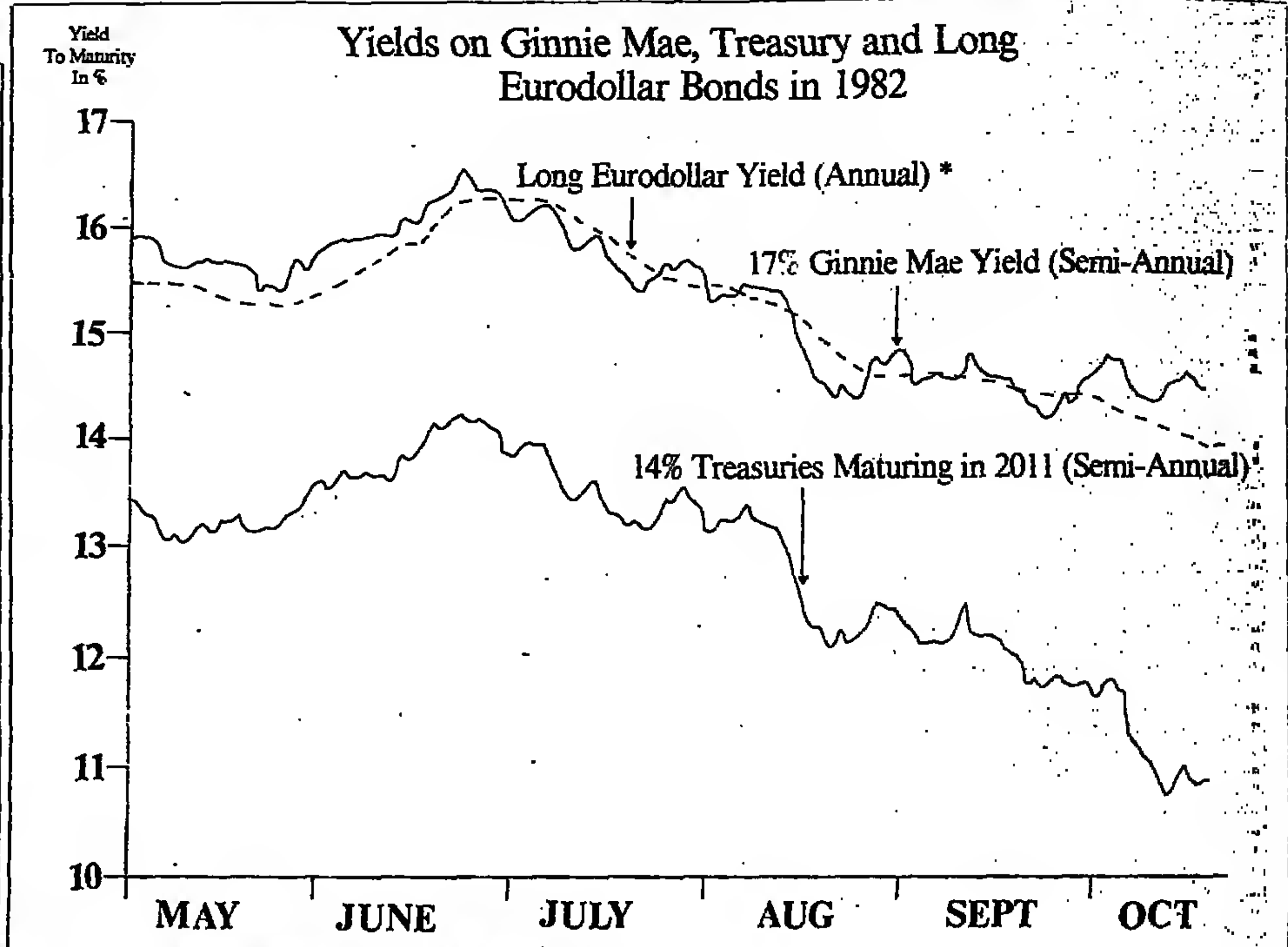

* Average years to maturity — 12.75 Average call price — 102.5
Average life to first call — 5.75 Average coupon — 15.65

EUROMARKETS

Fund Managers Are Seeking To Reverse Divestiture Trend

By Rainer Kahrmann

LONDON — Investment funds operating in Europe have been subject to increased government regulation and scrutiny since the early 1970s, largely as a result of the Investors Overseas Services direct sales approach for investment funds. IOS caused serious losses to its mostly private investors in the aftermath of the decline in Wall Street prices, which began in 1969.

Investor opinion on the European Continent, in the Middle East and in other countries thereafter turned progressively against investment funds as an investment outlet, helped along by continued uninspiring equity and bond markets in the latter third of the 1970s and the first two years of the 1980s. The negative and at best disinterested investor opinion has not been helped by the tightening of local fund laws in the various European jurisdictions, mirrored by an almost total regional fragmentation of the investment fund market in Europe.

The author is an executive director of European Banking Company, London. The views expressed are his private views and not necessarily those of the company.

It is difficult to gauge whether the difference in the national regulatory framework has been the principal cause for this effective fragmentation, or whether the lack of determination by fund managers to penetrate individual national markets by virtue of a multinational marketing approach has been the reason, or both. There are a few notable exceptions, such as the Dutch equity and bond funds. The overall market, however, has not been really accessible to transnational placement of investment funds, with the few contrary examples being the exceptions confirming the rule.

During the last two years, with short-term interest rates at record levels up to 20 percent and equity and fixed rate markets heavily depressed as a result, investors have on a net basis divested themselves of investment funds on the European Continent, giving serious concern to fund managers as to how to reverse this process. Recently the pace of net redemption has slowed because of rapidly declining interest rates but it is still open whether investor preference will permit ever again a net positive sales pattern to emerge in Continental Europe for equity and fixed income oriented funds.

It is interesting to note that Britain, as the only country that seems to have liberalized the process in which funds ("unit trusts") can be marketed on a direct client basis, provided they are insurance linked, has seen a very significant growth in the total net assets under unit trust management, with consistently positive net subscription levels over the last years. However, there are also clouds on the horizon in Britain with regard to increasing government interference in onshore unit trust management in view of the Gower Recommendations, which will lead to a marked revision of the Prevention of Frauds Act, the merits of which are currently being debated.

Investment fund sponsors have endeavored to counteract restrictive legal barriers by setting up funds in offshore centers, such as the Channel Islands and the Cayman Islands, among others. However, this route does not provide an effective means of circumventing onshore compliance with local regulatory frameworks and investor audiences have been largely restricted to expatriates. The aggregate volumes channeled through offshore centers into investment funds have remained small in comparison to those in European domestic economies.

The European Community Commission, as in many other fields, is aiming to harmonize investment trust laws within its member countries, and while this may lead to a new set of rules, it can nevertheless be hoped that it will lead to a more homogeneous regional approach in investment fund rules. As EC harmonization efforts take a long time to become practical reality, any tangible influence toward better accessibility by individual funds to national markets must be considered a long time away.

As a result of the existing regional fragmentation, many investment funds on the Continent are neither profitable propositions for the sponsors nor really for the investors, whose investment is subject to disproportionately high charges. However, very little amalgamation of investment groups has taken place, as prestige considerations by the sponsors have prevailed over economic and investor interest considerations. The one notable exception has been Britain, where consolidations of sponsoring groups have gathered pace, in the unit trust as well as the investment fund fields.

Only if distribution throughout Europe can take place on a truly transnational basis will economies of scale be possible, which in turn will render the concept of investment funds palatable again to investors. It will also necessitate an increased scale of operation to create direct sales forces to bring the product directly to the investor's door, thereby eliminating many of the unsavory investment proposals in which he is now subject by lack of educated and sound direct counseling.

While it is not disputed that the strict rules in Europe for establishing and running investment funds have given positive protection to investors, other "unregulated" investment activities, such as tax allowance schemes, forward commodity and exchange dealing programs and other nonmainstream investment proposals to individuals have caused losses to those investors who have not channeled their funds through the more established banks and professional advisory groups. Sponsors of dubious investment schemes have not always been impeded by the existing "investment" regulatory framework. Regulatory authorities in European countries have looked with great reluctance at innovative approaches in the investment fund concept, such as money market funds and commodity funds, which are still not acceptable to most European onshore supervisory authorities. This is in contrast to the continued growth of the investment fund concept in the United States, where investment funds, or "mutual funds," can be distributed, once they are registered with the Securities Exchange Commission, to a 240-million audience without any local restrictions. The recent phenomenal rise of money market funds and commodity funds in the United States has shown the positive approach that the SEC, and, in the case of the former, the Federal Reserve Bank have taken to innovative concepts in the investment fund field. The investor has been allowed to benefit from such innovation without undue government interference.

The aim of the investment fund concept must be that, while it may not guarantee the "top dollar" in performance compared to any serious and specialized financial advice, the investor will not be defrauded of his monies invested, and inherent market and other risks will have been properly explained to him.

The investor might be better served if investment fund sponsors define their ethics and regulations more by virtue of self-imposed discipline than by fragmented and superimposed local government regulations creating artificial regional borders that are more and more arbitrary and meaningless when looked at from the vantage point of international flow of funds seeking an investment haven.

Distribution of Equity Funds And Fixed-Rate Funds in Europe

(at 31 December 1981)

	EQUITY FUNDS		FIXED RATE FUNDS	
	($000,000)	%	($000,000)	%
Belgium	145	14.5	855	85.5
W.Germany	3,577	31.6	7,732	68.4
France	9,715	64.4	5,364	35.6
United Kingdom	10,969	97.3	304	2.7
Italy	1,250	83.1	255	16.9
Netherlands	3,696	76.9	1,112	23.1

Source: European Federation of Investment Funds and Companies.

Aggregate of Investment Fund Assets In Europe and the United States (As of Dec. 31, 1981)

	Total Assets ($000,000)	Total Assets Per Capita($)
Belgium	1,000	100
W. Germany	11,309	184
France	15,079	280
United Kingdom	11,273	202
Italy	1,505	27
Netherlands	4,808	338
U.S.A.	238,649	1,071
	cum money market funds	
	52,427	235
	ex money market funds	
Switzerland	7,911	1,250

Source: European Federation of Investment Funds and Companies.

Eurobonds Offer Investors Seeking Balanced Portfolio a Variety of Currencies as Market Expands

By Richard Rae

LONDON — "And which currency would you recommend?" Over the past decade, this question has become routine among seasoned investors when discussing investment strategy with their bankers. The link between currencies and interest rates has increased since the abandonment of the Bretton Wood Agreement and the free floating of major world currencies.

Investors no longer demand only advice on credit quality and income returns for fixed-interest investments in their domestic capital market but also seek assistance on the choice of currencies. Because of the gyrations in interest rates over the last 10 years, currencies have gained an increasingly important role in construction of a balanced investment portfolio. In this environment, Eurobonds became the ideal instruments to fulfill the needs of investors.

The range of currencies available in the Eurobond market comes close to matching the variety of investment instruments on offer and the type of borrowers that make them available. Since the inception of this market the choice of currency for investors and borrowers has increased notably and reflects the enormous growth of the market.

The founding unit, the European Unit of Account, has over the past 20 years undergone changes that mirror the altered market environment and needs of borrower and lender alike. At the same time, the addition of new currencies or even creation of substitutes for standard currency-denominated bonds has enabled this freethinking and freewheeling market to expand at a rate no one could have envisaged in the early 1960s.

Unquestionably the dominant role belongs to the dollar, which over the last 20 years has carved itself more than 75 percent of the market, which now totals more than $150 billion. It remains the only true international currency unit of the Eurobond market. In contrast to the gamut of national currencies available, Eurodollar bonds have not been subject to central bank controls or coordinated with domestic fiscal policies, but were subjected to the influences of open market forces only.

Freedom from governmental influences has enabled the Eurodollar sector to show a creativeness unmatched in any other capital market of the world. The introduction of straight, convertible, zero coupon, floating-rate note, warrant, retractable and dual currency issues can all be traced back to this currency sector and has to date been imitated only on a restricted scale by others.

The growth of the market is also reflected in the size of transactions, which in the first 10 years rarely exceeded $50 million, a unit that at present is likely to be the minimum amount contemplated by any borrower. Major dollar offerings are now measured in fractions of billions of dollars, with the weekly total of primary debt frequently topping one billion.

Just as the new issue amounts have changed over the years, the coupon rates fluctuated dramatically in line with the interest pattern. The peak in the Eurodollar interest rates was reached in 1982 when Mexico became the first borrower to pay 18½ percent, which was for its last bond issue to precede its debt rescheduling efforts last August. The lows can be traced back to the late 1960s, when coupons were still in single digits and prime names were able to borrow genuinely long at rates of around 6 percent.

Interestingly enough, the quality of issuers has varied little. The market really expanded after the introduction of interest equalization tax in the United States in 1964, and attracted initially first- and second-class U.S. corporate names. Genuine third-rate corporations and less developed country borrowers were never really able to gain a foothold in the Eurobond markets, as retail investors remained unwilling to provide funds for them and offerings from this type of borrower tended to take on the form of private placements among banks or became thinly disguised syndicated loans.

Times have changed but not the ultimate purpose of the Eurobond market, which was established to cater for the growing investment needs of expatriate funds in search of anonymity and fiscal freedom. The multinational background of this capital pool inevitably produced the wide variety of currency options that is now available.

The second most powerful currency unit in the bond market is the Deutsche mark, closely rivaled by the Swiss Franc. In both currencies, central banks retained strict control over the new issue volume and type of borrower, as well as the timing of launch through a well-publicized queue system, and at no time surrendered the new issue flow to the influences of the open market.

The importance of Deutsche mark bonds has varied, reflecting the strength of the currency in the international currency markets, but like all other alternatives, they remained inextricably linked to the fortunes of the dollar. A similar influence was exerted on the Swiss franc bond market but to a much milder extent.

The very efficient Dutch capital market inevitably spawned a Euro-sector, albeit only for privately placed issues of short maturity. Again, full control over the flow of transactions has been retained by the Dutch central bank, which over the last five years has also permitted more and more foreign borrowers into the public domestic market. These three European currencies, which, together with the dollar, form the main currency content of the Eurobond market, have worked in close unison with each other and, therefore, fall under the DM block heading.

In the second tier of this multicurrency Eurobond pool are currency units that during the past years have rivaled the DM-block in importance but have lacked its consistency. Among these are the yen, which over the last 10 years has only been permitted by the Ministry of Finance to play an international role in the Euro/Asian bond market. The Canadian dollar, sterling and the French franc feature among those that fall into this more volatile but nevertheless important section of the Eurobond market.

The French franc has lost importance since the Socialist victory in 1981 and the imposition of exchange controls. Sterling's appeal, in particular to borrowers, lies in the fact that interest rates were moving in close tandem with those in the United States and that funding opportunities of up to 30 years could be found, a feat unmatched in any other capital market. With a possible weakening of the British pound, this appeal to borrowers is apparent, although the flow of transactions remains well controlled by the Bank of England.

Other strong currencies in this second-tier sector include the Luxembourg franc, which throughout the development of the Eurobond market has presented itself as the main rival to London in respect of listing for these Eurobonds and has at the same time seen a remarkably liquid capital market develop. The attractions of the Luxembourg franc were particularly underscored by the weakening of the Belgian franc last year, which increased the possibility of the creation of a genuinely independent Luxembourg franc, currently only available through fixed interest securities.

Lastly, the emergence of the European Currency Unit, the ECU, the official currency of the European Community, as a major unit was an impressive feature of 1982. The growth of this currency basket owes a lot to the emergence of a true interbank market in the ECU, pioneered by the Luxembourg banking community with the strong assistance of the French banks. The increased liquidity in this currency unit and the genuine currency characteristics the ECU acquired during the past year helped immensely in the expansion of the ECU bond sector.

Looking at many other less important currencies that offer themselves to investors, the list grows alarmingly long. Starting with one-time performers, few investors will look upon the Lebanese pound as a currency unit that could have alternative appeal to the ones mentioned above. On the other hand, the Kuwaiti dinar market did attract some well-known borrowers but did not find too many takers among non-Arab investors.

With a new-issue moratorium currently in operation, only older issues present themselves to investors with an inkling of hope for a recovery in the fortunes of members of the Organization of Petroleum Exporting Countries. Other occasional offerings denominated in Australian dollars are to be found in the market, alas with settlement through the mighty dollar and a very restricted after-market potential. Similarly, the November premiere offering of a New Zealand dollar-denominated bond encountered strong investment resistance because of the lack of foreign exchange facilities in this currency and the necessity to operate through the dollar.

Infrequent use has also been made by foreign borrowers of the Belgian franc, Austrian schilling, Singapore dollar and Danish krone. In all instances these currencies have not truly acquired the Euro-status the Norwegian krone strived to attain during the last two years. The relaxing of the Norwegian capital market rules tentatively opened the door for foreign investors to a potentially strong currency. Initially, issues were only for Norwegian borrowers, but in 1982 the rules were further eased to accommodate supranational and foreign borrowers. This certainly is a new Eurobond sector, with solid support from the international investment community.

Last but not least, a thought should be spared for the currency baskets that have come and gone and are occasionally revived when either the dollar or the DM lack investment appeal. The first European Currency Unit with a gold link soon lost its attractiveness to borrowers when gold started its meteoric rise in the 1970s and was replaced at the beginning of the 1980s by the official accounting unit of the European Community, which has, as mentioned earlier, proved to be a complete success.

Of the other currency baskets, the Special Drawing Right was used with limited success and gained little strength from the reduction in the currency components. The currency components were cut from 15 to five on January 1, 1981.

The Eurco was another short-lived currency cocktail for which there was only a limited possible application.

The dominant borrowers in currency baskets have to date been supranational and sovereign borrowers. So far, few corporates have been willing to commit themselves.

Whichever way the Eurobond cocktail has been shaken, the resulting mix has always been strongly dollar flavored, with a frothy topping of other currencies. Some very limited attempts to link petrol prices, gold and silver productions to bond deals failed to inspire investment confidence and subsequently fell into oblivion. The Eurodollar is currently the only truly independent currency unit and will therefore still form the foundation of the Euromarket.

The true driving force of the Eurobond market has undoubtedly been the dollar held offshore.

These Eurodollars, which are indistinguishable from the "genuine greenback" other than for their tax-free status, were instrumental in turning this capital market into the fourth largest fixed-interest capital center after London, New York and Tokyo.

The accent of freedom of choice and anonymity of investor has been the other ingredient that helped the dramatic expansion over the last 20 years. This spirit will continue to attract new funds and may ultimately lead to the Eurobond market becoming the world's No. 1 capital market.

Interest Rate Futures: Tool

(Continued from Preceding Page)

appreciation witnessed by the treasury bonds. The prepayment option of mortgage holders has put something of a damper on these securities as call provisions have done to the long Eurobonds. A mortgage holder would presumably attempt to renegotiate the terms of the high-interest mortgage and when this begins to occur on a large scale, the pool of mortgages will begin to diminish.

Although Ginnie Maes and Eurodollar bonds are certainly different animals by their nature, investor reaction to the two is similar. And while the domestic mortgage market and the Eurodollar bond market appear to have little in common except sensitivity to interest rate movements, structural similarities ironically make them somewhat compatible.

In conclusion, based upon instruments available, it appears that the Ginnie Mae future is best suited for hedging the longer end of the Eurobond market. Regrettably, no suitable individual instrument exists to hedge the medium Eurobond maturities unless one attempts a hedging mix of T-bill contracts and long bond contracts, a strategy fraught with risk because of the delicate nature of the yield curve shape. However, recent interest-rate developments must certainly be taken into account because both types of security have currently fallen into a separate yield class of their own.

EUROMARKETS

The Next Phase for LIFFE: Marketing Financial Futures to the General Public

By Brendan Brown

LONDON — The London International Financial Futures Exchange, is now at that unnerving stage of development through which many innovatory products pass on their way to eventual success or failure.

The futures contracts that LIFFE has started to trade have not proved to be that rare type of innovation that spontaneously takes off; the only recent example of instant success in the futures industry has been for the stock index contract traded at the Chicago Mercantile Exchange and the New York Futures Exchange since the summer. Yet, there has been sufficient interest in trading the new instruments to encourage members of LIFFE to believe that it is worth persevering.

After months of preparation, and the fanfare of the initial opening, LIFFE members must now embark on the long slog of marketing the new product to the general public. Trading between members themselves, which is an especially high proportion of business turnover in the early stages of most futures markets' existence, cannot generate net income for the members in aggregate.

Chicago's International Monetary Market faced a similar challenge after its first few weeks of operation in 1972; nerves were probably less strained, however, as the initial commitment of members was small. The Chicago market was set up as a subdivision of the mercantile exchange with a large proportion of the seats being allocated simply to exchange members; only a small part of the mercantile exchange's trading floor was allotted at first to the new financial futures trading.

LIFFE's launching has been bolder than the Chicago market. A self-contained marketplace with a potential for handling a volume of business greater than currently enjoyed by the Chicago market has been constructed in the Royal Exchange Building, which has been refurbished at considerable cost over the past year.

In its first month, LIFFE has traded two currency futures contracts, in British pounds and Deutsche marks, and one interest rate futures contract, in three-month Eurodollar deposits. Trading volume in each currency has fallen far below 1,000 on most days, with business in the Deutsche mark contract being especially disappointing.

In the Chicago market, average daily trading volume during October has ranged from around 7,000 for Swiss francs, 4,000 for Deutsche marks, Japanese yen, and Canadian dollars, to 2,000 for British pounds. LIFFE's Eurodollar contract has enjoyed daily trading volume usually in a 1,500 to 3,500 range, against 1,000 to 2,500 for Chicago's Eurodollar contract. Crisis in the Eurodollar market, set off by debt rescheduling and moratoriums in Latin America, has been good news for LIFFE, as second-tier banks have found it cheaper to cover interest-rate exposure by writing Eurodollar futures contracts than by dealing in the shrinking Eurodollar interbank market.

Yet LIFFE's successful attack on the Chicago market's position in the Eurodollar futures market does not represent a major conquest. Interest rate futures trading in Chicago is concentrated on Treasury bills and, to a much lesser extent, on futures contracts for domestic certificates of deposit, which enjoy average trading volumes of around 20,000 and 5,000 respectively. Chicago dealers point to the high ratio of open interest to trading volume in the Eurodollar contracts, indicating that it is used primarily for hedging rather than speculative purposes. But it is speculators trading in and out of the market over short periods of time that is essential to generating turnover and liquidity on futures exchanges.

Officials of LIFFE play down the appeal that the new market may have for speculators. In part this is for political reasons; stressing the hedging rather than the speculative uses of LIFFE was useful in obtaining various approvals from regulatory bodies. The experience of the futures industry in the United States confirms the importance of good public relations with the authorities. Even the Chicago market's rivals recognize that it has been one of Chicago's efficiently run political machines, with well-positioned contracts to facilitate the gaining of consents for new developments.

Dealers on Chicago's International Monetary Market estimate that speculative business may account for as much as 75 percent of total trade effected by the public. Indirect evidence supports this estimate. The most actively traded currency contract is that for the Swiss franc, a currency in which there can be little hedging interest from U.S. corporations; yet the Swiss franc is particularly volatile against the dollar, and so it excites speculative interest.

Out of the various courses offered this year by the Chicago market on the use of futures, that on chart-reading and technical analysis of price fluctuations was heavily oversubscribed, while those on hedging techniques were less in demand. The message from Chicago is clear: the most fertile ground for business is among speculators rather than hedgers.

Developing speculative business on LIFFE will be a more daunting task than it was on the Chicago market. There is no tradition among the British of widespread interest in speculative trading on futures markets. Private wealth-holdings are generally smaller and the total size of the potential market of futures is much smaller in Britain than in the United States.

If LIFFE is to generate the volume of trade enjoyed by Chicago, members must market the contracts throughout Western Europe. In this regard, the low representation of members from Continental Europe is unpromising. Moreover, many members would be cautious about accepting business from German speculators, given that futures trading is treated by German law as gaming and debts incurred are unenforceable.

The hedging uses of the currency contracts are potentially greatest for the small-sized corporation. Typically these have a credit relationship only with one or two banks, and so they do not have access to competitive quotation in the traditional exchange market. Even the practice of seeking a two-way quote offers a small corporation little protection, as the bank is normally aware of the nature of its business and whether it is likely to be a buyer or seller of foreign exchange. But the marketing costs are high of reaching the small business man and demonstrating to him how, under the open outcry system of trading in the futures market, his foreign exchange business would be affected in a competitive environment. Moreover, banks themselves may be resistant to their small customers transferring foreign exchange business elsewhere.

Chicago's market had a head start in developing hedge business, in that many small corporations in the Midwest were already using the Mercantile Exchange to hedge agricultural price fluctuations. Their commodity broker could readily interest them in hedging currencies also and so enjoy the economy of having more business to transact on the same trading floor. Complementary business is especially prominent in Canadian dollars, where some 50 percent of orders come from corporations in the grain trade. The sterilized conditions of LIFFE's marketplace, sealed off from commodities trading, are unhelpful for business promotion.

Interest rate contracts, like those of currency, have a hedging appeal that is greatest for the small business. The large corporation, whose shares are widely held, does not have much incentive to hedge interest-rate risks. In contrast, the owner of a small corporation, that invests in, say, a construction project extending over many years, exposes his total portfolio to the risk that interest rates will rise, so inflicting on him a severe opportunity cost. This risk can be hedged by taking a short position in interest rate futures contracts or by obtaining long-term fixed rate finance. The former strategy has the advantages of avoiding high negotiation and commission costs or the acceptance of burdensome loan covenants. Indeed, owners of construction and development companies have been an important business segment in the Chicago interest rate futures markets.

Arbitrage with the cash market is usually vital to liquidity creation in the futures markets and it also provides floor traders with an additional source of income. For the currency futures and the Eurodollar futures markets, the relevant cash markets to arbitrage are the interbank markets in foreign exchange and in Eurodollars respectively. Arbitrage is already more efficient on LIFFE than on the Chicago exchange during its early days, due to the active participation in LIFFE of banks, which contrasts with their detachment until recently from the Chicago market.

The banks' early participation by direct membership in LIFFE may be a mixed blessing. Though they increase the efficiency of arbitrage, they are unlikely to be aggressive in bringing outside custom to the market. "Locals," well-capitalized independent floor traders, in LIFFE have little scope to make arbitrage profit, unlike their Chicago counterparts, who can play the sale-and-repurchase market for Treasury Bills in New York against the Treasury Bill futures market in Chicago.

Viewed from Chicago, London has been unduly bold to make a frontal attack on it by launching almost identical contracts in currencies and Eurodollars. Traders are skeptical about whether the predominantly corporate or institutional members of LIFFE will demonstrate the same skills as the high proportion of "locals," many of whom are in their third generation, on Chicago's futures markets. Even the much spoken about time-zone advantage of London has proved somewhat illusory; traders in London are unwilling to take positions before they see how the Federal funds rate opens early in what is their afternoon.

The delay in introducing a gilt-edged contract into LIFFE, attributed to a technical hitch in arranging for physical delivery of bonds through the Clearing House, does not awake sympathy in a city that houses a long-established and highly liquid bond futures market at its Board of Trade. On the Chicago market, there is even some apprehension that the golden days of speculative business may be over, as the heavy costs, direct and indirect, of futures trading mean that only one outsider in eight makes significant gains, leaving many disenchanted customers.

In London, Chicago's negativity appears premature. New contracts are yet to be listed, and there is optimism about the business potential of the short-term sterling interest rate futures contract, which started trading on Nov. 4, and the gilts contract, which was eventually launched Nov. 18. An extensive marketing effort for all contracts lies ahead. There is always the possibility of a long drawn-out sterling crisis that would stir up welcome retail speculative business in Britain itself. But the conclusion that the going will be more difficult for LIFFE than it was for Chicago is hard to refute.

The author is the currency economist at Phillips & Drew.

MARKET NEWSLETTERS

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the markets better than Low," said Maurice Armand of Crédit Lyonnais. "And I'm pleased to see they have stopped using terms like 'as exclusively foreshadowed' and 'watch this space,'" Mr. Armand said, referring to Mr. Low's tongue-in-cheek style, which appears to have irritated as many people as it has amused.

But there is no denying Mr. Low's flair. "His arrogance was irksome but he kept us on our toes — and he was never dull," a British banker recalled. Mr. Low's departure from the field — listening to bankers' stories one could say "battlefield" — has diluted International Insider's appeal, according to some bankers. Moreover, it seems he negotiated the sale of the newsletter just as newspapers were increasing their coverage of capital markets. "He got out at the right time," said Ian Kerr of Kidder Peabody. "What the markets need is less gossip and more analysis, more research." Mr. Goodrick-Clark was phlegmatic: "We're holding our own and even adding subscribers." As for Mr. Low's appeal to readers: "His acerbic style cut both ways. You win some, you lose some. It's early days for us."

Mr. Hemain's approach to market information stems from his experience as London correspondent for Agence Economique et Financière, a fairly solid French daily newspaper devoted to the "journal of record" school of financial journalism. His approach has succeeded with Agefi International Financing Review.

From a four-page record of bond issues in 1974, Agefi has expanded to 30 pages and includes a commentary on U.S. leading indicators and New York sentiment, details of syndicated bank loans, a 'spreads' league table, extensive country reports, new issues in the various sectors of the international bond markets and details of floating-rate notes, certificates of deposit and private placements. Such comprehensive information does not come cheaply; subscribers pay £650 a year (£600 in London). The subscription price also buys one or two cartoons per issue inevitably aimed at market cognoscenti — and a smattering of advertising, mostly tombstones. The occasional flurry of political comment — it ranges from homily to invective — completes the mix. It is bulky and potent.

"A few weeks ago, Hemain wrote that the Ivory Coast was a candidate for rescheduling and he upset a lot of people," the syndication head of a U.S. bank said. "It stopped a deal we had in its tracks. We got it going again only when we managed to get another view across." Mr. Hemain was unrepentant. "We reflect market views," he maintained. "Anyway, he had two months to syndicate that deal, and if it wasn't completed then it shows there was something wrong with it."

But the newsletters are not entirely free from the influence of market participants, according to Mr. Hemain. "Gosh, some people try very hard to manipulate us," he grimaced. "You would be surprised how many borrowers, especially Latin American ones, announce their glorious market achievements late on Friday night, just at the time they think we are under pressure and will not be able to check their claims or get other opinions. They are mistaken, but very deeply."

Criticism is, perhaps, as good a measure as any when assessing a publications' impact on its readers. Certainly, Mr. Hemain attracts much of it himself for allowing his own views to permeate otherwise hard, industrially harvested information. "He does make a fool of himself from time to time," said Mr. Kerr. "He writes these flowery eulogies on certain of his banking friends, particularly French ones, as if they were central bankers. A few weeks ago he described one of them as 'the Uncrowned King.'" Mr. Hemain shrugged the criticism aside. "I don't care. Some people are more original and more interesting than others — and more than some central bankers."

Less easily ignored by his readers are Mr. Hemain's sorties into the political arena. Bankers cited two recent examples of what one of them termed "his tendency to go over the top." At the height of the disturbances in Poland, Mr. Hemain published a full page in Agefi bearing only the emblem of Solidarity. "Some people said I should keep out of politics," he said. "Others liked very much the expression of support we published. And there was an Arab bank that wrote asking me to do the same for the P.L.O. — I told them the P.L.O. was rich, Solidarity was not."

But it was Mr. Hemain's stance on the Falkland Islands conflict that drew most criticism from his readers. Under the heading "A Comedy of Errors," he lashed out at the British prime minister and British bankers: "The Margaret Thatcher decision to involve not only what remains of the British fleet but also the whole of the Euromarket in order to cover up her error in not foreseeing the Argentine willingness to reconquer its Malvinas Islands is an unacceptable misjudgment." Storming on, he wrote: "The international banking community will remember that none of the chairmen of the large U.K. banks, which have earned so much money from their Euromarket activities, have said a word against the present absurd and obsolete actions."

Mr. Hemain conceded that the reaction was very strong "not only from the U.K. but also from the U.S. and elsewhere." One of his sternest critics was the managing director of European Banking Company, Stanislas Yassukovich. "Many people thought it offensive," he said. "Hemain lives and works in the United Kingdom yet he insisted on referring to the Malvinas and on misinterpreting attitudes in the City of London. As for his criticism of politicians using the Euromarkets to exert economic pressure, he seems ignorant of the argument that says financial journalists should limit their excursions into political comment."

"Rubbish," snapped Mr. Hemain. "In a country of three million unemployed, I generate work for 30 people. I have never felt I'm a guest here. If that is a basis for limiting comment, then I could easily move my operation elsewhere. While I remain, the 'host' can thank me."

Many bankers would withhold their thanks for Mr. Hemain's political sorties, yet they are quick to express their admiration for the amount of information he gathers and disseminates each week. A typical assessment comes from Carl Studt of Barclays Merchant Bank who said he regards Agefi as "very authoritative" on the subject of new issues. "It brings us up to date on certain aspects of the market, and we can find information on issues where we may not have received telexed details from the issuer."

However, some bankers believe that Agefi might — like International Insider — find it difficult to sustain high subscription rates in the face of extended newspaper coverage and the arrival of improved computerized information systems designed for primary markets. Mr. Hemain agreed with the point about computers. "More and more the markets will rely on computerized data. That is why we will be concentrating more and more on comment in depth. We will still try to cover the markets in detail, but the interpretation of data will be increasingly important."

Bankers will be hoping he gets the balance right. In their view interpretation and comment are not always compatible with Mr. Hemain. But few of them would deny his contribution to the international bond markets and to the area of syndicated bank loans. "The best definition of a private placement is 'one which has not appeared in the Agefi newsletter,'" said Crédit Lyonnais' Maurice Armand. Besides illustrating that bankers, too, can sometimes "go over the top," it is a cordial acknowledgement of Mr. Hemain's voracious appetite for information — and for selling it.

CONTRIBUTORS

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EUROBONDS

By CARL GEWIRTZ

Dollar Markets Still in the Doldrums Despite Drop in Fed's Discount Rate

PARIS — The dollar bond markets in Europe and New York failed to respond last week to the long awaited cut in the Federal Reserve's discount rate.

A heavy volume of new issues had been marketed bearing coupons anticipating that cut. When it finally came, the markets simply yawned. As a result, the aggressively priced recent issues are virtually all trading at substantial discounts and unless the Fed provides some new spark — another half point cut in its lending rate — analysts believe the Eurobond market will remain in the doldrums at least until the new year.

"The buyers are just not there," laments an investment banker, after being chased to the sidelines by a host of conflicting worries.

One of these worries is how much further dollar interest rates can decline. President Ronald Reagan has said he would consider moving forward to early 1983 the personal tax cut scheduled to be introduced at mid-year. But the Fed chairman, Paul Volcker, told Congress last week that he opposed accelerating the date, implying that such further expansion of the budget deficit could cause the Fed to halt its easing of monetary policy.

Even without an acceleration of the tax relief date, analysts are becoming increasingly concerned about the size of the federal budget deficit and its tendency to expand as the long awaited economic recovery is delayed further. Questions are raised about how the deficit will be financed and what impact this will have on bond market rates.

A related worry is the effect an outflow of foreign capital from the United States could have on domestic interest rates. There already are signs that foreign investors are beginning to move out of the dollar. The temptations to do this are great. Many are holding high coupon bonds on which they are showing large capital gains. And given the dollar's recent strength on the exchange market, many foreign investors could earn large foreign exchange profits by selling dollars for their native currencies.

Investors are tempted to take these profits while they have them, because they could evaporate quickly. While the dollar is 3 percent below its recent high, investors got a reminder from the decline of the British pound of how fast an exchange rate can move once it starts. The pound fell 2.7 percent last week, which put it 4.3 percent below a week earlier and 6 percent below the level of late October.

While bankers report there has been some profit taking and movement out of the dollar, they warn it could be dangerous to be too aggressive a seller of dollars. "The dollar has bounced back too often in the recent past," notes a British banker.

"We're giving thought to advising clients to sell dollars, but we haven't yet," says a private Swiss banker. "There are too many unpredictable factors — political factors, fears of financial stability — which make us uneasy to advise selling dollar holdings. The return on dollars is still more attractive than available in other currencies." In addition, he says the the liquidity of the dollar market is reassuring.

But the market's lack of performance last week made perfectly clear that new money is not being committed. Investment banks are sitting on large inventories of paper that are quoted at discounts steep enough to erase any hope of a profit from having underwritten the issues.

This decline helped narrow the very wide gap that had existed between yields on new issues and those available on the secondary market. The new issues almost uniformly now yield more than 11 percent while seasoned issues yield around 12 percent.

On the new issue market, BHP of Australia sold $100 million of eight-year bonds at par bearing a coupon of 12 percent. Marketing of the issue was not helped by the fact that investors could buy higher-yielding BHP

(Continued on Page 19, Col. 1)

Eurobond Yields

For Week Ended Nov. 24

Int'l inst. lg. term US$	12.35%
Ind. long term US$	12.61%
Ind. medium term US$	12.71%
Can.$ medium term	14.19%
French fr. medium term	15.48%
Int'l inst. lg term yen	8.11%
ECU medium term	12.29%
EUA long term	11.55%
Int'l inst. lg term FLX	10.79%
FLX long term	11.06%

Calculated by the Luxembourg Stock Exchange

Market Turnover

For Week Ended Nov. 26
(Millions of U.S. Dollars)

	Total	Dollar	Non-dollar Equivalent
Cedel	6,200.2	5,008.2	1,192.0
Euroclear	8,698.4	7,997.9	700.5

Agreement Reached to Buy Pabst

By Alexander R. Hammer
New York Times Service

NEW YORK — The hotly contested battle for control of Pabst Brewing, the fifth largest U.S. brewer, appears to have been all but won by G. Heileman Brewing.

Heileman said Friday that Irwin L. Jacobs, a dissident Pabst shareholder who led a rival group seeking control of the brewer, had endorsed its new offer for Pabst and had agreed to tender 1.14 million Pabst shares to Heileman immediately.

Under a new offer announced Friday, Heileman, the fourth-largest U.S. brewer, said it would offer $29 a share in cash, or about $162.4 million, for up to 5.6 million Pabst shares.

In a second step, Heileman said it would issue 10-year, 15-percent notes with a principal amount of $24 for each of Pabst's remaining 2.6 million shares, yielding a total indicated value for the deal of $225 million.

Heileman also said that, subject to court approval, it would pay $7.5 million to the Jacobs group to cover costs of litigation and related expenses. The Pabst shares to be tendered by the Jacobs group will not be subject to withdrawal, Heileman said.

In an offer that had been endorsed by both the Justice Department and Pabst management, Heileman had previously offered $27.50 a share for 5.5 million Pabst shares. Mr. Jacobs and his associates sought 3 million Pabst shares at $35 a share through their JMSL Acquiring Corp.

Mr. Jacobs said in a statement Friday that he and three associates, Dennis Mathiesen, Daniel Lindsay and Gerald Schwalbach, had accepted the new offer and would tender 1,140,305 shares to Heileman. But Mr. Jacobs stressed that he was not speaking on behalf of JMSL Acquiring, and the company's offer apparently would remain on the table.

Paul Kalmanovitz, a 50-percent owner of JMSL Acquiring, said Friday that he had not agreed to the accord with Heileman.

Mr. Kalmanovitz, who has major holdings in the General, Pearle and Falstaff Brewing companies, said he had already rejected an offer of $5 million in cash from Heileman to withdraw from the bidding for Pabst.

JMSL's $35-a-share offer for Pabst would be continued until Friday, he said.

A Sampling of How Airlines Lure the Frequent Flier

Carrier	Program (Date introduced)	Top Prize	Travel Required
American	AAdvantage (May, 1981)	Two first-class round-trip tickets on American, anywhere; car and hotel discounts	75,000 miles
Eastern	Frequent Traveler Bonus (August, 1981)	Free lifetime membership in Eastern's Ionosphere Club, a VIP lounge	100,000 miles*
Pan Am	WorldPass (July, 1982)	Thirty days of unlimited first-class travel for two on Pan Am, anywhere	175,000 miles*
TWA	Frequent Flight Bonus (Jan., 1982)	Two first-class round-trip tickets on TWA, anywhere; car and hotel discounts	95,000 miles
United	Mileage Plus (May, 1981)	Two first-class round-trip tickets on United, anywhere	75,000 miles

*Plus $25 membership fee

Note: Eastern, Pan Am, United and TWA require that mileage be logged by Dec. 31, '83; American requires that mileage be logged 12 months after initial date of enrollment in the program.

The New York Times

For Air Travelers, a New Wrinkle: Fly 75,000 Miles, Get to Hawaii Free

By N.R. Kleinfield
New York Times Service

NEW YORK — Chalk up 75,000 miles on United Airlines and take off first class to Hawaii for free. Fly 95,000 miles on TWA and get tickets to Rome, plus a cut-rate room at the Hilton and a discount on an Avis car. At American Airlines, you can even accumulate miles sailing on a cruise.

So goes the frequent flier sweepstakes, the hottest marketing game invented by the ailing U.S. airlines to buckle more people into their jets. Passengers willing to spend long stretches of miles airborne are finding themselves showered with free rides, all the way up to free world travel for two for a month.

The airlines, though they are loath to divulge specifics, boast that the programs have brought in badly needed revenues at minimal cost. After all, they are giving away seats that generally are empty. Some corporate travel departments, though, are miffed that they do not share in the bonuses.

A clear-cut effect of this hoopla is the emergence of quirky travel habits. When many businessmen make their arrangements, they are concerned not so much with the next available flight, but with choosing the airline on which they have already flown thousands of miles. Some people are forsaking nonstop flights and waiting longer at airports, just to get closer to their rewards.

All this attention to frenetic fliers started in May 1981, when American Airlines kicked off its AAdvantage program. The game has been escalating ever since. "We are attempting to build brand loyalty in a commodity market," said Thomas Plaskett, American's senior vice president for marketing.

The airlines are striving to build that loyalty among a choice group of fliers. They figure that fewer than two million Americans — mostly businessmen — are airborne for more than 12 round trips a year, yet these people account for a disproportionate share of airline revenues. These are the frequent fliers.

Courting them has buoyed the hopes of the carriers. "We've found that it has had significant impact on our revenues," said Nick Michael, manager of direct marketing for Trans World Airlines. American says it has led to millions of dollars of new business.

The airlines do acknowledge that they periodically get testy calls from corporate travel departments wondering why they are not cut in on the prizes. "These are the same companies that call up and want volume discounts," an American employee said. "These are the same companies that call up all the time."

A few companies track the mileage of their employees and, when awards are due, claim them and apply them to business trips or dole them out as awards to employees. Most, though, find it not worth the hassle.

A deeper concern is whether travelers are stealthily scheduling unnecessary trips, or circuitous routes, at additional cost to their companies, in order to rack up miles. One travel agent told of a man who flies from New York to California weekly, customarily going nonstop. However, one of the airlines was offering a bonus for extra trip segments, so he arranged to stop in Dallas, get off, then board another plane.

A further aim of frequent-flier gimmicks is to get information for airlines on who their best customers are, so the carriers can mail them special offers. "This is really a story of changing the way we market the product," American's Mr. Plaskett said. "We can spend a lot of money — and we do — advertising in the media and reach a lot of people. We can spend much less money reaching just our best customers."

He offered this example: "We wanted to respond to a competitive move in Texas whereby, for a few dollars more, you can fly first class if you're a frequent flier. I guess that our competitor spent on TV and newspapers $1 million to $1.5 million to advertise this. We responded with a direct mailing to our frequent fliers in the Fort Worth-Dallas area at a cost of a little less than $60,000."

The airlines keep tacking on new wrinkles in an effort to outdo each other. American teamed up with the cruise ship line Holland America so that a traveler could get air miles at sea or apply mileage on American toward a cruise. Hertz recently introduced a frequent renter program that allows customers to amass points toward free car rentals and toward tickets on American and Eastern. Continental gives a free flight, then the passenger works off the debt with travel.

Pan American offers what it trumpets as the "richest frequent traveler program in the world." Anyone who runs up 175,000 miles on Pan Am in a year gets a pair of first-class passes for unlimited travel on Pan Am for a month, a bonus that could be worth many thousands of dollars.

Brazil Will Seek Loans From IMF Of Up to $6 Billion

By Oliver Wates
Reuters

RIO DE JANEIRO — Brazil will seek loans of almost $6 billion over three years from the International Monetary Fund, the government has announced. Negotiations with ranking IMF officials are to begin here on Monday.

The finance minister, Ernane Galvêas, told reporters Friday that Brazil is seeking the loan to avoid defaulting on its estimated $85 billion in foreign debt, which is believed to be the largest in the world.

If the aid is provided, IMF officials will monitor the Brazilian economy until 1986 to ensure the government implements policies approved by the fund.

It was also reported late last week that commercial banks are considering a further $1.5-billion loan to Mexico, whose estimated $80 billion in foreign debt is the world's second largest. Those funds, if approved, would be used to repay overdue interest on Mexico's private sector debt, foreign bankers said in Mexico City.

They said accumulated unpaid interest is approaching $1 billion and represents a major stumbling block in efforts to arrange fresh credits for Mexico.

Banking sources in New York said last week that the IMF, which has tentatively agreed to lend Mexico $3.84 billion over three years, had asked banks to lend the country $6.5 billion before the end of 1983. The IMF managing director, Jacques de Larosière, asked the banks for commitments on the new loans by Dec. 15.

Foreign bankers in Mexico City said Mexico wanted $1.5 billion this year and the remainder in 1983. It has promised the IMF not to increase public-sector borrowing by more than $5 billion next year.

The foreign bankers expressed surprise at the speed with which the IMF wanted the commitments, especially since Miguel de la Madrid Hurtado will not take office as president until Wednesday.

However, they said U.S. banks, some of which have made more than half of their loans to Mexico's private sector, were anxious to find some solution to the problem of overdue interest payments.

Unless they receive interest on these loans within the next few weeks, some U.S. banks will be required to declare the loans nonperforming and set aside reserves to cover them, they said.

The bankers said they did not know if Mexico would receive any of the $1.5 billion if the new loan were granted. The money could instead be transferred directly to banks owed interest by the private sector.

Since August, when Mexico defaulted on its debt, small and medium-sized banks, especially in the United States, have become increasingly skittish about lending to developing countries. This appeared to explain the lack of surprise among international bankers over Mr. Galvêas' announcement Friday in Rio de Janeiro that Brazil, too, would seek IMF aid.

Mr. Galvêas said talks on an agreed economic program would begin on Monday, after the arrival of the IMF's Western Hemisphere director, Horst Struckmeyer. He also said he hoped to present a formal application by Dec. 15.

The IMF loans, if approved, would cover only a small part of Brazil's needs. The rest would have to come almost entirely from commercial banks.

Brazil is seeking a jumbo loan of $2 billion to $3 billion to help meet payment of foreign debt for the first quarter of next year, foreign banking sources said late last week. Details are also falling into place for $1.2 billion of 90-day bridging loans from 12 international banks to help Brazil finance its balance of payments to the end of the year, the sources said.

Before Friday's announcement, Brazilian officials had seemed confident they could continue to roll over the debt and spread repayment over a manageable period.

But after Mexico sought a delay on repaying its loans, bankers became convinced that it was only a matter of time before Brazil sought out the IMF. They said the timing of the announcement was important, coming after national elections earlier this month, and before President Ronald Reagan's visit here this week. An announcement after the visit could have been interpreted as a result of U.S. pressure, they said.

OPEC Ministers to Meet Dec. 19 in Vienna

Reuters

KUWAIT — OPEC oil ministers will meet Dec. 19 in Vienna to try to reach a new agreement on prices and production and stop a developing price war, it was officially announced here Sunday.

The Kuwaiti minister of state for cabinet affairs, Abdul-Aziz Hussein, announced the date and venue after a cabinet meeting, which was briefed by Oil Minister Ali Khalifa al-Sabah.

The meeting of the 13 members of the Organization of Petroleum Exporting Countries was originally set for Dec. 9 in Lagos, but Nigeria opted out as host after some Gulf countries opposed holding the crucial talks there.

In what is likely to be a stormy session, the ministers will have to try to share out a dwindled market for OPEC crude oil among the group's members.

Venezuela's energy and mines minister, Humberto Calderón Berti, said Saturday in Caracas that OPEC ministers will try to iron out differences on prices and production levels in intensive contacts before the Dec. 19 meeting.

He told reporters that several OPEC members had asked for a postponement of the meeting. "Oil ministers of some countries are going to take advantage of this additional time to make personal contacts," he said, adding: "There is no doubt that several OPEC countries are facing severe financial difficulties."

OPEC ministers would meet on Dec. 18 to try to reach a compromise, Mr. Calderón Berti said. The main objective was to maintain the price structure based on $34 a barrel and establish mechanisms to preserve a balance between supply and demand in 1983, he said.

Oil ministry sources in the Gulf said the formal session might extend to Dec. 20.

Energy ministry officials in Venezuela said Mr. Calderón Berti had been invited by Iran's oil minister, Mohammed Gharazi, to visit Tehran before the OPEC meeting for consultations on the market situation. It was not known if be would go.

The officials said the invitation was not necessarily in the context of both countries' high production levels. Venezuela had a traditional role in OPEC as a mediator.

Venezuela produces 2.28 million barrels a day against its OPEC quota of 1.5 million, while Iran reportedly produces about 2.5 million barrels a day against a 1.2 million OPEC quota, which it never accepted.

Mr. Calderón Berti has said that if OPEC could not reconcile its differences, there could be a disastrous confrontation at the Vienna meeting. This could lead to a new round of priee cutting.

Several countries are charging less than OPEC's $34 a barrel reference price.

While several ministers, including the Saudi oil minister, Sheikh Ahmed Zaki Yamani, have said they would prefer to keep the $34 price, other ministers have said the outcome of the December meeting could not be prejudged.

Industry analysts in London have said it would be difficult to reach an agreement on individual output quotas with agreed variations in price to take account of quality unless Saudi Arabia compromised with Iran and Libya on market share.

■ **Subroto Doubts Split**

Indonesian Oil Minister Subroto told United Press International in Jakarta that there would not be a split in OPEC over price and production at the organization's Dec. 19 meeting. He said that the oil glut will continue to favor a price freeze, and "prices will remain the same in nominal terms in 1983."

Strauss Reportedly Queried in Probe

New York Times Service

BONN — Franz Josef Strauss and several other leading West German politicians have been questioned by prosecutors about charges that a West German company made improper campaign contributions, according to the news magazine Der Spiegel.

Officials have disclosed that they are investigating whether a West German company made large, clandestine contributions to the three major political parties in exchange for tax favors.

Der Spiegel said that on Monday it would print the text of depositions it said leaders of all three parties made this autumn to prosecutors. The Friedrich Flick group, a privately owned holding company, is said to have made large under-the-table contributions in its effort to obtain a waiver of $175 million in taxes resulting from its sale of a 29-percent share of Daimler-Benz, the automaker, in 1975 for $781 million.

Among the officials whose depositions the magazine said it would publish were Mr. Strauss, chairman of the Christian Social Union; Josef Ertl, minister of agriculture and a Free Democrat; Horst Ehmke, the floor leader in the Bundestag for the Social Democratic Party, and Alfred Dregger, the Christian Democratic floor leader.

According to the magazine, Mr. Strauss was questioned about contributions from 1975 to 1979 totaling $378.4 million. The other officials were questioned about smaller contributions, the magazine said.

The names of the politicians were listed in documents prosecutors confiscated in July at Flick offices in Düsseldorf.

Among the officials being investigated are Economic Minister Otto Lambsdorff, a Free Democrat, and Hans Matthöfer and Manfred Lahnstein, both Social Democrats and ministers under Chancellor Helmut Schmidt.

All the people named in connection with the case have denied any illegal activity.

Interest in the case was revived earlier this month after it was learned that the Flick group planned a major management shake-up, involving the departure of a senior executive, Eberhard von Brauchitsch, who is also under investigation.

CURRENCY RATES

Interbank exchange rates for Nov. 26, excluding bank service charges.

	$	£	D.M.	F.F.	H.L.	Gldr.	B.F.	S.F.	D.K.
Amsterdam	2.7785	4.464	109.82*	38.82*	0.1904	—	5.609*	128.14*	31.20*
Brussels (a)	49.425	79.86	19.5725	6.926	3.395*	17.8255	—	22.82	5.5475
Frankfurt	2.5215	4.065	—	35.36*	1.733x	90.98*	5.105*	116.40*	28.44*
London (b)	1.592	—	4.05	11.3241	2,317.83	4.3622	78.485	3.4355	14.0901
Milan	1,459.55	2,324.25	577.25	204.88	—	525.24	29.465	671.76	164.11
New York	—	1.5978	0.4002	0.1414	0.0006	0.3619	0.0204	0.4663	0.1132
Paris	7.153	11.4225	282.60*	—	4.899x	257.40*	14.448*	329.85*	80.45*
Zurich	2.1595	3.4547	85.635*	30.208*	0.148	78.045*	4.3798*	—	24.205*
1 ECU	0.9184	0.5769	2.3224	6.5645	1,340.45	2.5486	45.457	1.998	8.1442
1 SDR	1.07424	0.66931	2.7148	7.684	1,567.85	2.9848	53.2871	2.3319	9.5591

Dollar Values

$ Equiv.	Currency	Per U.S.$	$ Equiv.	Currency	Per U.S.$	$ Equiv.	Currency	Per U.S.$
0.9536	Australian $	1.0487	0.0336	Israeli shekel	29.725	0.4537	Singapore $	2.2045
0.0564	Austrian schilling	17.735	0.004	Japanese yen	251.10	N.A.	S. African rand	—
0.0197	Belgian fin. franc	50.75	3.4224	Kuwaiti dinar	0.2922	0.0014	S. Korean won	746.35
0.8076	Canadian $	1.2383	0.4227	Malay. ringgit	2.366	0.0084	Spanish peseta	119.65
0.113	Danish krone	8.85	0.1392	Norw. krone	7.1805	0.1333	Swedish krona	7.505
0.1814	Finnish mark	5.5143	0.1062	Phil. peso	9.4342	0.0247	Taiwan $	40.40
0.0139	Greek drachma	72.10	0.011	Port. escudo	91.624	0.0455	Thai baht	21.9781
0.1504	Hong Kong $	6.6495	0.2907	Saudi riyal	3.4405	0.2723	U.A.E. dirham	3.6725
1.3355	Irish £	0.7488						

£ Sterling: 1.1868 Irish £

(a) Commercial franc. (b) Amounts needed to buy one pound. (*) Units of 100. (x) Units of 1,000.

Latin American Debt Nearly Shutters Market

By Carl Gewirtz
International Herald Tribune

PARIS — Despite the pleas from central bankers and other monetary officials that bank lending be kept flowing, the syndicated loan market remains virtually shuttered. Commercial banks, overwhelmed by the debt problems of such major borrowers as Mexico, Argentina and Brazil, refrain from making new commitments.

SYNDICATED LOANS

The banks are working feverishly to help the South Americans work out their payment difficulties, but other business is not sought.

Even assuming that the current problems are contained without major mishap for borrowers or lenders, many bankers believe the market may never regain its former vigor. The long-held view that lending to sovereign states was safer than traditional domestic banking business has now been shattered.

While it remains true that sovereign states do not go bankrupt and disappear, as corporate clients can, talks with bankers reveal that they are increasingly turning their attention back to their domestic markets and clients and away from the international arena. They cite superior expertise in their home markets and the higher profits through direct lending and ancillary business.

The easy profits to be earned in the international market — low costs for infrastructure relative to the high costs of domestic retail business — have either disappeared or have been whittled too thin to be meaningful. And the proportion of foreign-to-domestic business has expanded farther than many bankers now think is wise.

This is not to say there will be a total withdrawal from the international arena. Rather, the picture that emerges for the Euromarket is an enlargement of the West German and French experience: Lending will be tied to finance the exports of their domestic clients. This does not eliminate the risk for banks, as the heavy West German exposure to Poland demonstrated. But in many cases the export finance is insured, whereas pure financial credits are not.

While U.S., Japanese, British and Canadian banks are likely to move in this direction, Arab banks will not have the same option. And in fact they currently are the one active sector of the market.

UBAF, for example, is putting together a $500-million, five-year loan for Iraq that will pay 1 point over the London interbank offered rate. UBAF is also in the very early stages of discussing a loan of up to $200 million for Jordan.

Mideast bankers are also leading an effort to organize a $100-million loan for Tunisia, which they describe as one of the most underborrowed countries in the world. According to the latest data from the Bank for International Settlements, Tunisia owed banks $923 million at mid-year, and had $617 million on deposit with those banks. Tunisia is looking for an eight-year loan and bankers are arguing whether it should pay a half-point over Libor or a split ½-⅝ point over Libor.

Skimpy pricing is said to be hurting the marketing of the $300-million, eight-year loan for the Ko-

(Continued on Page 19, Col. 1)

من الأصل

International Bond Prices — Week of Nov. 25

Provided by White Weld Securities, London, Tel.: 623 1277; a Division of Financiere Credit Suisse - First Boston

(Continued from Page 6)

DM STRAIGHT BONDS

HIGHEST YIELDS to Average Life Below 5 Years

HIGHEST YIELDS to Average Life Above 5 Years

HIGHEST CURRENT YIELDS

CONVERTIBLE BONDS

ZERO-COUPON BONDS

Treasury Bills

Source: Federal Reserve Bank

HIGHEST CURRENT YIELDS On convertibles having a conversion premium of less than 10%.

Explanation of Symbols

هكذا من الأصل

هكذا من الأصل

NEW EUROBOND ISSUES

Straight	FRN	Warrant	Conv.	Borrower	Amount (millions)	Maturity	Coupon %	Price	Yield At Offer	Terms
				[illegible]	[illegible]	1989	11¾	99¼	11.90	First callable at 101 in 1987. Payable Jan. 25, 1983. Coupon increased from 11½%.
				[illegible]	[illegible]	1990	12	100	12	First callable at 101 in 1988. Payable Jan. 19, 1983.
				[illegible]nmark	[illegible]	1989	¼	100	—	Over 6-month Libor. Minimum coupon 5¼%. Optional redemption in 1987.
				[illegible] Engineering & Shipb[illegible]	[illegible]	1987	10%	open	—	Terms to be set Dec. 2. Payable Dec. 21. Each $1,000 bond carries a 5-yr warrant exercisable into yen equivalent of $1,000 of company's shares at an anticipated 2.5% premium.
				[illegible] Cellulosa	$19.75	1997	9	100	9	Convertible at an anticipated 5% premium starting Feb. 15.
				[illegible]	[illegible]	198[illegible]	¼	100	—	Over Libor. Floating rate certificates of deposit.
●				ENEL	DM 100	1989	8⅞	99⅝	8.95	Noncallable.
●				European Investment Bank	DM 200	1992	8¼	100¼	8.21	First callable at 101½ in 1989.
●				Gould Int'l Finance	DM 75	1989	8¼	100	8¼	First callable at 101½ in 1986.
●				Oest. Landerbank	DM 50	1987	8¼	100	8¼	Noncallable. Private placement.
			●	Sumitomo Realty & Dev.	DM 50	1992	6½	100	6½	Convertible at an anticipated 5% premium.
				Electricité de France	[illegible] 50	[illegible]	12½	open	—	Price to be set Dec. 6.

Dollar Market Still Weak Despite Fed Rate Cut

(Continued from Page 17)

paper on the secondary market and the issue ended the week quoted at 97½.

Pegged to the growing interest in yen-denominated paper, Mitsui Engineering & Shipbuilding offered $50 million of five-year bonds bearing a coupon of 10⅝ percent and one warrant to buy the equivalent of $1,000 worth of stock at a premium of some 2½ percent over the prevailing Tokyo quote when final terms are set on Dec. 2.

In addition, Ajinomoto Co. is offering 10 million shares of common stock through the sale of European depositary receipts. The issuing price will be set at a slight discount from the prevailing Tokyo quote when terms are set on Dec. 3.

Svenska Cellulosa sold $19.75 million of 15-year bonds bearing a coupon of 9 percent. The bonds are convertible into the company's common stock at a price of 367 kronor, a premium of 5 percent over the price when terms were fixed. The issue was marketed mostly through brokers in London.

This week, the European Community is scheduled to try to tap the U.S. market for up to $300 million, but some bankers believe that if the EC decides to float the issue now instead of waiting, it may move the deal to the Eurobond market where it could raise money more cheaply than in New York.

Also expected this week is a dollar issue for Austria's Donaue Kraftwerke, which will serve as a swap into Swiss francs held by a British company.

In the floating rate note sector, Denmark is offering $250 million of seven-year notes bearing a coupon set at a quarter-point over the London interbank offered rate and guaranteed not to fall below 5¼ percent. Investors can request redemption after five years. A 20-bank syndicate is underwriting the issue, evidence of the effort to market the paper among investors. But many analysts question whether this is not simply a syndicated loan providing bankers with a higher return (due to the underwriting commissions) than Denmark would like to be seen paying on a syndicated loan.

The Deutsche mark sector of the market benefited from the mark's improvement against the dollar. But West German bankers still complain that the scheduled volume of new issues is heavier than can be comfortably absorbed. As it was, two issues, by Nissan Motor and Toray Industries, were cancelled, reportedly because the sharp strengthening of the yen removed the incentive for Japanese firms to borrow marks.

Two of the issues marketed last week bore the marks of a struggle between the issuer, who wanted to keep their cost below 9 percent, and the managers, who sought a realistic return for investors.

Ireland offered 150 million DM of nine-year paper bearing a coupon of 8⅞ percent at 99½ to yield 8.96 percent, while ENEL sold 100 million DM of seven-year bonds bearing a coupon of 8⅞ percent at 99⅝ for a yield of 8.95 percent.

Ireland's paper traded at 98 for a yield of 9.21 percent, while ENEL's was quoted at 97⅜ for a yield of 9.38 percent.

A small, five-year issue of 50 million DM was marketed for Osterreichische Länderbank at par, bearing a coupon of 8¼ percent. It ended the week quoted at a discount of 1¼ points.

The European Investment Bank's 200 million DM of 10-year bonds, priced at 100¼ to yield 8.21 percent, was well received and quoted at 99½.

Gould of the United States sold 75 million DM of seven-year bonds at par bearing a coupon of 8¼ percent and was quoted at 99½-100.

Electricité de France, guaranteed by France, offered 50 million European Currency Units of 10-year bonds bearing a coupon of 12½ percent. Pricing will be fixed Dec. 6.

Coming to the market this week will be Philip Morris and the Inter-American Development Bank.

International Herald Tribune

Latin American Debt Halts Market

(Continued from Page 17)

rean Development Bank. The bulk of this — $200 million — is priced at a half-point over Libor while the remainder is priced at 20 basis points (100 equals one percentage point) over the U.S. prime rate, or at 125 basis points over the adjusted rate for 90-day certificates of deposit if this is cheaper.

"The market wants higher pricing," a critic says, "and the Koreans are wrong to try to buck the uptrend."

Indonesia is raising £125 million ($198.7 million) through the sale of sterling acceptances in the British market. Bank Indonesia is the obligor, although it will be acting on behalf of state-owned Indonesian companies. Banks will earn a ⅜ percent acceptance commission and a ¼ percent commitment fee on any unused portion of the five-year revolving credit.

In Latin America, a "club" loan of $80 million is being put together for Panama. Interest on the seven-year loan will be set at 2 points over Libor or 1⅞ points over the prime rate. In addition, lenders will earn a participation fee of 1½ percent. The terms, says one lender, "reflects the realistic conditions needed to market Latin American paper."

Latin America remains the focus of bankers' concerns. Brazilian officials were in Europe last week, trying to arrange $1.2 billion in short-term loans from French, British and West German banks. The loans would be renegotiated into medium-term loans next year. The talks did not go smoothly, with the Europeans wanting clarification on how this loan would relate to the financial commitments they had made in separate trade protocols with Brazil.

In all, Brazil is looking for $2 billion for 180 days, on which it will pay 1 point over Libor. The Europeans say that the $2-billion target before year-end is not realistic.

The U.S. banks were much relieved by the comments made by the Federal Reserve Board chairman, Paul Volcker. International debt problems "will frequently require at least transitional financing beyond amounts appropriate to, or feasible for, the International Monetary Fund and official lenders," he said. Then he advised that "where new loans facilitate the adjustment process and enable a country to strengthen its economy and service its international debt in an orderly manner, new [commercial bank] credits should not be subject to supervisory criticism."

The first of the refinancing packages for Venezuela should be signed this week. All but three banks among the short-term lenders to INAVI, a state housing agency, agreed to extend for medium-term paper. The three banks reported they were having their own problems finding medium-term funds.

The withdrawal of these three banks appeared to be affecting the level of participation by Japanese banks. They held 50 percent of the $560 million in short-term loans being refinanced. And rather than holding their commitment to half of the $560 million, they are willing to put up only half of the new total. This means that instead of losing the $60 million from the three dropouts, a total of $120 million will be cut.

The fact that the many smaller banks that had lent short-term agreed to stay in the loan was greeted with relief by the major lenders, who had feared the small banks might take this opportunity to drop out.

A $100-million, three-year operation is underway for Banco Industrial de Venezuela. This is not a formal consolidation of short-term loans, but banks with outstanding exposure are being asked to extend. Interest will be set at 1¼ points over Libor. A similar operation will take place with U.S. banks, with interest tied to the prime rate.

Analysts Still Hopeful of Decline in U.S. Rates

By Michael Quint
New York Times Service

NEW YORK — A combination of an accommodative monetary policy by the Federal Reserve Board and weakening credit demands among large businesses is keeping alive the hope that short-term rates will decline further in coming weeks, analysts said.

U.S. CREDIT MARKETS

However, the latest data do not point toward an immediate drop in rates.

The Fed is continuing to provide the banking system with an ample supply of funds at the same time that business credit demands are weakening, according to Fed data published late Friday.

In the week ended Wednesday, the central bank supplied enough reserves to the banking system that banks and other financial institutions were able to reduce their borrowings from the Fed to an average of $235 million, down $271 million from a week earlier. Because some banks had excess reserves, the banking system as a whole had a net free reserve position of $16 million, compared with a net borrowed reserve position of $85 million a week earlier.

Reserves are funds that financial institutions must hold in the vault or on deposit with regulators. By making reserves more plentiful, the Fed encourages expansion of lending and money supply.

Business credit demands also remained weak, as business loans on the books of large New York City banks rose only $3 million in the week ended Nov. 17, while business borrowings in the commercial paper market fell by $458 million.

In the credit markets there was no reaction to the Fed data, which was released two hours after dealers in government securities agreed to stop trading. Earlier in the day, interest rates were mixed in very quiet trading. Treasury bill rates rose by about five basis points. Prices of notes and bonds rose by a quarter of a point at most.

Money supply and balance sheet data for large U.S. banks was delayed to Monday because of the Thanksgiving Day holiday on Thursday. Analysts expect the basic money supply to increase by less than $1 billion, but noted that the weekly changes are of little importance to the conduct of monetary policy or the level of interest rates.

With many market participants absent, the most significant development was the announcement that the Treasury on Tuesday will sell $5 billion of cash management bills maturing in 50 days and $3 billion of bills maturing in 143 days.

It is well known among government securities dealers that the Treasury has been borrowing money in recent months at a rate indicating that it expects a budget deficit far higher than the official forecast of about $115 million. According to analysts at Merrill Lynch, the Treasury will raise about $57.9 billion of new cash this quarter, or $10 billion more than government officials estimated a month ago.

Toshiba Produces Robots With Eyes

United Press International

TOKYO — Toshiba, the Japanese electronics company, says it has put into operation the world's first set of robots equipped with eyes — visual sensors operated by cameras — and arms to handle assembly line work.

Toshiba said Friday that the robot system is part of its program to automate fully the assembly processes which require workers to use their eyes and hands. The company said it plans to introduce the system widely in 1983 for the assembly and inspection of home appliances and office automation equipment.

It said the system uses more than 10 small computers that process data and control the robots.

U.S. Consumer Rates
For Week Ended Nov. 26

Passbook Savings	5.50 %
"All Savers" Certificates	6.49 %
6-Month Savings Certificates	8.82 %
Tax-Exempt Bonds — Bond Buyer 20-Bond Index	10.16%
Money Market Funds — Donoghue's 7-Day Average	8.60 %
Home Mortgage — FHLB average	14.61%

Over-the-Counter

NEW YORK (AP)-Weekly Over the Counter stocks giving the high, low, and last bid prices for the week with the net change from the previous week's last bid prices. All quotations supplied by the National Association of Securities Dealers, Inc., are not actual transactions but are representative interdealer prices at which these securities could have been sold. Prices do not include retail markup, markdown or commission.

Sales supplied by NASD.

	Sales in 100s	High	Low	Last	Net Ch'ge
ABFort .16e	728	48½	47	47	—1
ABC .20f	24	6	5¾	5¾—	⅛
AFG	658	20½	18¾	19¾—	½
AGM .20	72	13½	13¼	13½+	¼
AGS	194	13	12¾	12¾—	¼
AMCbl	240	6¾	6⅛	6⅝—	¼
AMFI .11	7	11¼	11½	11¼	
ASKCpt	112	23⅞	23⅛	23⅞	
AVMCp	30	5½	5¼	5½+	½
AaronRt	445	21¼	19⅞	19⅞—	1½
Abrams .48r		6⅝	6⅝	6⅝	
Acadins	2080	22⅞	20⅞	22⅞+	1
AcLasRes	131	7⅝	7¼	7¼—	⅛
Accelrtn	636	3⅝	3¼	3½+	¼
Accuray .14	341	12⅞	12½	12⅝—	½
AcetoCh 1	40	21¾	21½	21¾+	¼
ACMAT	105	8¼	8	8	
AcmeGn .20	47	7	6½	7 +	½

(Continued on Page 21)

Mutual Funds

Closing Prices Nov. 26, 1982

NEW YORK (AP)—The following quotations, supplied by the National Association of Securities Dealers, Inc., are the prices at which these securities could have been sold (Net Asset Value) or bought (value plus sales charge) Friday.

	Bid	Ask
Acorn F	26.40	NL
ADV	17.75	NL
Afuture	15.27	NL
AIM Funds:		
CvYld	13.14	14.05
Grtwy	11.61	12.42
HIYld	9.74	10.42
Alpha F	22.11	NL
A BirthT	12.81	14.00
American Funds:		
A Bal	9.77	10.68
Amcp	7.28	7.96
A Mutl	13.20	14.43
Bond	12.88	14.08
Fd Inv	9.53	10.42
Grwth	11.03	13.85
Incom	9.78	10.49
ICA	9.86	10.78
N Pers	7.19	7.86
TaxE	9.08	9.53
Wsh Mt	8.52	9.31
Amer General:		
Cap Bd	6.86	7.50

Chicago Exchange Options

For the Week Ending Nov. 26, 1982

American Exchange Options

For the Week Ending Nov. 26, 1982

(Continued From Page 20)

Sales in 100s	High	Low	Last	Net Ch'ge
[illegible]				

(Continued on Pa

Over-the-Counter

Sales in 100s	High	Low	Last	Net Ch'ge
[illegible]				

	Sales in 100s	High	Low	Last	Net Ch'ge
Texon	1309	7⅝	7	7⅝	
Textone	389	11½	11¼	11½	
ThdNtCp 1.20b	174	25⅝	25⅛	25⅝	— ⅛
ThouTr	536	17⅝	17¼	17⅝	+ ⅛
TideRoy 1.10e	49	10½	10½	10½	
Tierco	48	4¼	4	4	— ¼
TimbrRl	20	25½	25⅛	25⅝	— ⅛
Timbrld	50	4¼	4½	4½	— ⅛
TmeShr	131	10½	9¼	9¼	—1¼
TmeFib	540	21⅛	20⅛	20⅛	— ⅛
Tinsly	5	7⅜	7⅜	7⅜	
Tiprary t	407	7	6⅜	6⅜	— ⅛
Tocom	1183	12½	11¼	12	— ¾
TokioF .92r	64	95⅜	92¼	95⅛	+3⅜
ToledTr 2.30	94	42½	40½	42½	+2
TomlOil	342	2¼	2⅛	2⅛	— ⅛
TomlO wt	11	½	½	½	

Consolidated Trading Of NYSE Listings

Week Ended November 26

	Sales	High	Low	Last	Ch'ge
[illegible]					

Consolidated Trading Of AMEX Listings

Week Ended November 26

	Sales	High	Low	Last	Ch'ge
[illegible]					
DomeP	1,277,000	3⅞	3⅜	3⅝	— ⅛
CMI Co	846,400	11¼	5⅞	11½	+5⅛
WangB	540,900	54½	49⅞	54	+1½
BeefCh n	420,400	8¼	6⅜	8½	+1⅜
RangrO	389,500	6⅜	6⅜	6½	— ⅛
GifCda	336,200	12¼	11½	11½	— ⅛
OzarkA	322,200	15⅝	14	15⅜	+ ¾
HouOTr	309,700	14¼	13¼	13⅝	— ½
LundyE	308,400	13¼	11¼	13	+2⅛

Volume: 24,330,000 shares
Year to Date: 1,157,050,000 shares
Issues traded in: 913
Advances: 341 ; declines: 456 ; unchanged: 116
New Highs: 109 ; new lows: 6

China Holds 7-Medal Lead Over Japan in Asiad

United Press International

NEW DELHI — China captured five more gold medals Sunday to take a seven-medal lead over Japan at the two-thirds mark of the Asian Games. China is bidding to overtake the Japan for the first time since entering the competition in 1974.

At the close of the 10th day of competition, China had 45 gold medals to 38 for Japan. At the 1978 Asiad in Bangkok, Japan swamped China, 70-51.

Japan will try to cut into China's lead on Monday with six swimming finals on the line.

China's five gold medals Sunday were earned with a pair of victories in track and field, one each in shooting and diving and one in the men's team badminton event. The Chinese team edged Indonesia, 3-2.

In track and field, Liao Wenfen won the women's long jump with a Games record leap of 6.41 meters. She beat the record of 6.31 meters set by Xio Jieping at Bangkok in 1978.

Liao's closest competitor was Mercy Mathews of India, who took the silver medal with a jump of 6.26 meters.

Another Games record tumbled in the hammer throw competition. Shigenohu Murofushi of Japan shattered his own Asiad record of 68.26 meters with a hurl of 71.14 meters.

"I hope to keep participating in international events," said the 37-year-old balding assistant professor of physical education.

Rabuan Pit, a 26-year-old Malaysian policeman, picked up his country's first gold medal with a 10.68-second victory in the men's 100 meters.

In swimming, four Asian Games records were broken in heats of the women's 100-meter freestyle, 100-meter butterfly and 4-by-100 medley relay, and in the men's 100-meter butterfly.

Kaori Yanase of Japan, who earlier won the women's 200-meter freestyle, became the first Asian woman to break the 1-minute barrier in the 100-meter freestyle with a time of 58.62 seconds.

Her teammate Chikako Nakamori also broke the record of 1 minute 00.30 seconds, set by Sachiko Yamazaki of Japan in 1978, with a time of 1 minute 00.06 seconds.

Taihei Saka of Japan set a Games record in a heat of the 100-meter men's butterfly in 57.59 seconds. The old record of 58.41 seconds was set by Shinsuke Kayuma of Japan.

The Japanese women's team shattered the Games record in the 4-by-100 relay in 4 minutes 27 seconds, eclipsing the record set by a Japanese team in the 1978 Asiad of 4 minutes 27.16 seconds. Yanase was the anchor for the women's relay team.

The fourth Asiad record to fall Sunday was in the womens 100-meter butterfly. Takemi Ise of Japan clocked 1 minute 03.21 seconds in a heat to break the old record of 1 minute 3.56 seconds set by Yasue Hatsuda of Japan at Bangkok in 1978.

On Saturday, Japan and South Korea made waves in swimming and a fast Filipino starlet ran off with her country's first gold medal in athletics.

The swimming Choi sisters of Seoul — Choi Youn Hee and Choi Youn Jung — won gold and silver, respectively, in both the 100-meter backstroke and the 200-meter individual medley.

Youn Hee, 15, and Youn Jung, 16, also finished with a gold and a silver in Tuesday's 200-meter backstroke, thus winning six medals between them in three events.

At the 75,000-seat Jawaharlal Nehru Stadium, Lydia de Vega won the Philippines' first track gold medal, in the 100-meter dash.

De Vega, 17, crossed the finish line in 11.76 seconds, followed by P.T. Usha of India with a time of 11.95 seconds.

"I had a late start but I am running very, very hard," said the Manila-based runner, who recently starred in a Philippine film about her life. "The women from Hong Kong and Japan are very strong and they came out fast. I was running only third, but I finally caught up with them in the last 10 meters. I thought I would win because I have a lot of confidence."

M.D. Valsamma of India won the women's 400-meter hurdles in a Games record time of 58.47 seconds. "I am very happy now," the 21-year-old railway clerk said. "They drew me in the eighth lane. It was very difficult."

Valsamma's coach, A.K. Kutty, said he spent the night trying to convince the Indian speedster that she could win despite the draw.

"I told her that Edwin Moses set his world record in the 400-meter hurdles in the eighth lane," Kutty said.

NBA Standings

EASTERN CONFERENCE
Atlantic Division

	W	L	Pct.	GB
Philadelphia	13	2	.867	—
Boston	12	2	.857	½
Washington	7	8	.467	6
New Jersey	7	9	.438	6½
New York	3	11	.214	9½
Central Division				
Milwaukee	10	5	.667	—
Detroit	10	6	.625	½
Atlanta	6	7	.462	3
Chicago	6	10	.375	4½
Indiana	6	10	.375	4½
Cleveland	1	12	.077	8

WESTERN CONFERENCE
Midwest Division

	W	L	Pct.	GB
Kansas City	8	3	.727	—
San Antonio	11	6	.647	—
Dallas	6	7	.462	3
Denver	7	9	.438	3½
Utah	4	10	.286	5½
Houston	2	12	.143	7½
Pacific Division				
Seattle	14	2	.875	—
Los Angeles	11	3	.786	3
Phoenix	11	5	.688	3
Portland	8	9	.471	6½
Golden State	4	10	.286	9
San Diego	3	13	.200	10½

Friday's Results

Phoenix 110, New Jersey 99 (Davis 29, O. Johnson 16; Williams 17, D. Cook 13).

Los Angeles 117, San Diego 115 (Johnson 32, Abdul-Jabbar 22; Cummings 30, Chambers 23).

Seattle 121, Denver 104 (Williams 20, Smith 16, Shelton 16; English 24, Issel 11).

Washington 81, Indiana 85 (Ruland 26, F. Johnson 16; G. Johnson 20, Knight 17).

Boston 131, Utah 103 (Bird 25, Parish 26; Dantley 29, Wilkins 19).

Philadelphia 120, Cleveland 102 (Malone 24, Toney 33; Robinson 23, Wedman 23, Hayes 14).

San Antonio 123, Chicago 120 (Gervin 44, Moore 21; Woolridge 21, Theus 16, Corzine 16).

Detroit 132, Portland 118 (Tyler 32, Thomas 20; Natt 31, Valentine 24)

Saturday's results

Atlanta 117, Indiana 98 (Wilkins 21, Roundfield 26; C. Johnson 22, Kellogg 20).

Washington 107, Portland 90 (Collins 29, Mahorn 20; Paxson 19, Natt 17).

Philadelphia 126, Utah 113 (Malone 32, Toney 30; Green 26, Wilkins 34).

Kansas City 105, Phoenix 99 (Drew 21, E. Johnson 16; O. Johnson 21, Adams 18).

San Antonio 107, Dallas 106 (Gervin 45, Mitchell 34; Cummings 22, Vincent 19).

Houston 108, Chicago 99 (Teagle 28, Murphy 19; Theus 23, Woolridge 22).

Denver 141, San Diego 125 (English 39, Issel 20; Cummings 25, Chambers 14, Hodges 14, Brogan 14).

Milwaukee 109, New York 96 (Lanier 26, Moncrief, 18, Winters 18; King 27, Cartwright 16).

More Sports On Page 23

U.S. College Football

Friday
Delaware 13, Connecticut 7
Nebraska 28, Oklahoma 24
Penn St. 19, Pittsburgh 10

Saturday
Arizona 28, Arizona St. 15
Auburn 23, Alabama 22
Clemson 21, Wake Forest 17
Georgia 38, Georgia Tech 18
Hawaii 45, Air Force 31
Houston 28, Rice 21
Long Beach St. 44, Utah St. 17
Memphis St. 12, Arkansas St. 0
Miami (Fla) 19, Cincinnati 13
Nevada Las Vegas 42, Fullerton 23
Oregon 7, Oregon St. 6
San Diego St. 35, Oklahoma St. 6
Southern 22, Grambling 17
Southern Calif. 17, Notre Dame 13
Tulane 31, Louisiana St. 28
Vanderbilt 28, Tennessee 21

Sunday
Mirage Bowl, Tokyo
Clemson 21, Wake Forest 17

Transactions

BASKETBALL
National Basketball Association

DETROIT—Placed Kelly Tripucka, forward, on the injured list.

FOOTBALL
National Football League

LOS ANGELES RAMS—Waived Cullen Bryant, fullback, and Billy Waddy, wide receiver. Signed Charles DeJurnett, defensive tackle, and Kerry Locklin, wide receiver.

PITTSBURGH—Activated Walter Abercrombie, running back.

HOCKEY
National Hockey League

NEW YORK ISLANDERS—Sent Paul Boutilier, defenseman, to St. Jean of the Quebec Junior Hockey League.

COLLEGE

CAL-POLY POMONA—Announced the resignation of Roman Gabriel, head football coach.

EASTERN MICHIGAN—Named Jim Harkema head football coach.

NHL Standings

WALES CONFERENCE
Patrick Division

	W	L	T	GF	GA	Pts
NY Isles	14	9	4	102	84	32
Philadelphia	13	9	2	95	76	28
NY Rangers	13	10	1	96	91	25
Washington	8	9	6	34	90	22
Pittsburgh	8	13	7	78	108	19
New Jersey	4	15	7	71	110	15
Adams Division						
Montreal	15	4	5	111	77	35
Boston	13	7	5	91	70	31
Buffalo	11	8	4	100	80	26
Quebec	11	10	2	108	106	24
Hartford	5	14	7	72	107	13

CAMPBELL CONFERENCE
Norris Division

	W	L	T	GF	GA	Pts
Chicago	15	3	5	102	75	35
Minnesota	14	8	3	110	94	31
St. Louis	9	13	3	87	96	21
Toronto	4	12	5	71	93	13
Detroit	3	15	4	61	106	13
Smythe Division						
Edmonton	10	9	6	117	108	26
Los Angeles	10	9	3	79	91	23
Vancouver	9	10	5	87	70	22
Winnipeg	10	8	3	93	81	22
Calgary	9	13	4	106	108	22

Friday's Results

Edmonton 6, Winnipeg 5 (Kurri 3 (13), Gretzky 3 (20), Coffey (6), Hughes (9); Lundholm 2 (6), Lukowich (9), Mullen (7)).

New Jersey 4, Vancouver 4 (Meagher 2 (7), Tambellini (6), Ashton (4), Rota 3 (11), Hlinka 2 (11)).

Washington 5, Toronto 3 (Engblom (3), Carpenter (9), Gartner (13), Gould (7), Houston (10); Vaive 2 (5), Kern (2)).

Buffalo 8, St. Louis 6 (Ruff (6), McKenna 2 (7), McCourt (5), Selling (7), Ruff (7); Mullen 2 (6), Dunlop (7), Pettersson 2 (12), Ramage (4)).

Pittsburgh 6, Minnesota 6 (Hakansson (3), Boutette 3 (18), Baxter (3), Carlyle (4), Malone (7); Bellows 3 (9), Ciccarelli (16), Payne 3 (14), Giles (1)).

Chicago 4, Hartford 3 (Savard (9), Secord (19), Larmer (10), Gardner (1); Stoughton (1), Renaud (2), Francis (9)).

Saturday's Results

New Jersey 4, Calgary 3 (Ashton (5), MacMillan (7), Ludvig (1), Tambellini (1); Chouinard 2 (4), Konroyd (1)).

Boston 8, Hartford 0 (Bourque 2 (5), K. Crowder (8), Pederson 2 (9), McNab 2 (8), Middleton (9)).

St. Louis 5, Pittsburgh 3 (Sutter (16), Pettersson 3 (14), Carlson (3), Patey (4); Carlyle 3 (6), Kehoe (13)).

New York Rangers 3, New York Islanders 0 (Duguay 2 (6), Beck (5)).

Chicago 3, Quebec 1 (Preston (13), Secord (20), D. Sutter (5); Pichette (2)).

Montreal 5, Detroit 5 (Tremblay (1), Napier (9), Walter (11), Hunter (6), Mondou (8); Larson (4), O. Smith (3), Rowe (3), McKechnie (7), Blaisdell (6)).

Winnipeg 6, Toronto 3 (MacLean (9), Arniel (4), Christian (5), DuPont (2), Hawerchuk (13), DeBlois (7); Salming (4), Frycer (6), Balmstruck (1)).

Chinese Official Urges Improvement In Concessions to Foreign Investors

The Associated Press

BEIJING — An investment official has urged that China give higher rates of return than bank interest rates to foreign businessmen who provide funds for Chinese enterprises, the China Daily reported Saturday.

The newspaper said the official, Rong Yiren, general manager of the China International Trust and Investment Corp., also urged that no limit be imposed on the use of foreign funds in industries that make goods for export.

Mr. Rong said that at present, foreign funds are usually linked with exports, the English-language newspaper said.

However, he said, the goal of China's modernization drive is to improve the country's living standards. Thus, foreign funds should go to improve and update technology and produce quality goods for both home and export markets, he added.

To pay for imports, China should export non-ferrous metals and raw materials in addition to manufactured goods, Mr. Rong said.

China allows joint ventures with foreigners in selling some products.

Dacca Ruler Visiting China

Reuters

BEIJING — The military ruler of Bangladesh, Lieutenant General Hossain Mohammad Ershad, is in China for his first official visit since he came to power last year. Prime Minister Zhao Ziyang, who visited Bangladesb last year, presided at a welcoming ceremony Saturday.

CROSSWORD

ACROSS

1 Kind of truck
5 Hit
10 Bark cloth
14 Part of an Ed.D. exam
15 Itinerant
16 Approval
17 Like equestrienne Godiva
20 Toggery merchant
21 Heart essential
22 Blessed
23 K-P connection
25 Proceeds steadily with difficulty
27 Thai export
28 Literary monogram
31 Endure
32 Home entertainment
33 "—— a poor wayfaring . . ."
34 Like Savalas
38 From —— Z
39 Waiter's request
40 SANE target
41 Pro
42 Air
43 Not easily duped
45 Sharpness
46 SOS, e.g.
47 Key group
50 Furniture slots
54 Like a new father
57 On the summit
58 Beast
59 City SE of Torino
60 Wowed
61 Made of wood
62 High time

DOWN

1 Therefore: Fr.
2 Soviet river
3 Tasty shark
4 Excess
5 René's escargots
6 Saunter
7 First name in Persian poetry
8 —— Mahal
9 Psychologist LeShan
10 Ban
11 Riyadh bigwig
12 Spritely
13 Welk's "A-one —— -two . . ."
18 Junk's Arabian cousin
19 Type of know-how
23 Actor Burton
24 Open sea
25 Spaghetti sauce
26 —— of love
27 Where an owl and a cat went
28 Lively dance of yore
29 Obstinate
30 River duck
31 Wren's relative
32 A parent of Pedro
35 Like some questions
36 Hospital item
37 Queen Elizabeth is one
43 Lurch
44 Can. province
45 Break out
46 Thicket
47 They're busy in Apr.
48 Comic-actor Johnson
49 "The Banks o' ——": Burns
50 Buck, for one
51 Middling
52 Outside: Prefix
53 Fleece
55 Likely
56 Big ——, Calif.

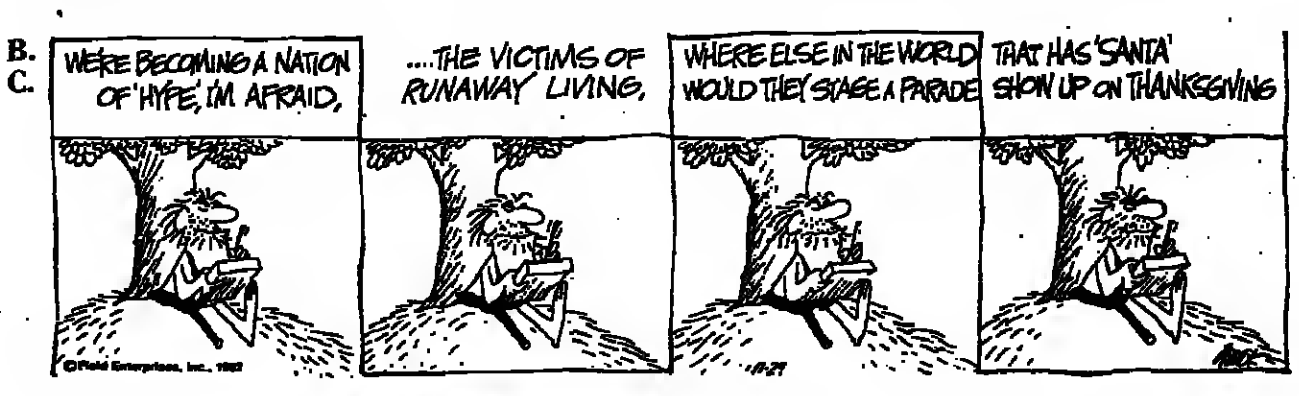
WEATHER

	HIGH C	HIGH F	LOW C	LOW F			HIGH C	HIGH F	LOW C	LOW F	
ALGARVE	18	64	15	59	Fair	LOEDOE	5	41	-1	30	Fair
ALGIERS	13	55	10	50	Rain	LOS ANGELES	20	68	13	55	Cloudy
AMSTERDAM	7	41	1	34	Cloudy	MADRID	12	54	3	37	Cloudy
ANKARA	0	46	-10	14	Fair	MANILA	32	90	24	75	Overcast
ATHENS	17	63	11	52	Overcast	MEXICO CITY	10	64	13	55	Cloudy
AUCKLAND	—	—	—	—	N.A.	MIAMI	28	82	23	73	Fair
BANGKOK	34	93	26	79	Cloudy	MILAE	11	52	9	48	Overcast
BEIJING	4	39	1	34	Foggy	MONTREAL	2	36	-8	18	Fair
BEIRUT	20	68	10	50	Fair	MOSCOW	1	34	0	32	Overcast
EELGRADE	11	52	4	39	Overcast	MUNICH	39	36	2	36	Rain
BERLIE	6	43	5	41	Overcast	NAIROBI	21	70	15	59	Cloudy
BOSTON	6	43	-3	27	Cloudy	NASSAU	28	82	19	66	Fair
BRUSSELS	5	41	3	37	Cloudy	EEW DELHI	22	72	10	50	Fair
BUCHAREST	10	50	2	36	Cloudy	EEW YORK	7	45	-2	28	Cloudy
BUDAPEST	9	48	2	36	Cloudy	NICE	15	51	12	54	Fair
BUENOS AIRES	21	70	16	61	Cloudy	OSLO	2	36	0	32	Rain
CAIRO	21	70	10	50	Cloudy	PARIS	5	41	2	36	Cloudy
CAPE TOWN	25	77	15	59	Fair	PRAGUE	5	41	1	34	Rain
CASABLANCA	19	66	9	48	Overcast	REYKJAVIK	0	32	-3	27	Fair
CHICAGO	8	46	0	32	Rain	RIO DE JANEIRO	30	86	24	75	Fair
COPEEHAGEN	0	46	5	41	Cloudy	ROME	14	57	10	50	Cloudy
COSTA DEL SOL	20	68	11	52	Cloudy	SAO PAULO	28	82	22	72	Overcast
DAMASCUS	14	57	4	39	Cloudy	SEOUL	12	54	5	41	Cloudy
DUBLIN	5	41	2	36	Fair	SHANGHAI	20	68	16	61	Rain
EDINBURGH	4	39	0	32	Rain	SINGAPORE	31	88	24	75	Foggy
FLOREECE	14	57	6	43	Overcast	STOCKHOLM	6	43	5	41	Rain
FRANKFURT	6	43	4	39	Overcast	SYDEEY	26	79	15	59	Fair
GENEVA	6	43	4	39	Overcast	TAIPEI	29	54	24	75	Cloudy
HARARE	28	82	18	64	Cloudy	TEL AVIV	20	68	9	48	Fair
HELSINKI	3	37	8	22	Overcast	TOKYO	13	55	5	43	Fair
HONG KONG	24	75	21	70	Rain	TUNIS	15	59	9	48	Showers
HOUSTON	18	64	7	45	Cloudy	VENICE	13	55	11	52	Rain
ISTANBUL	13	55	6	43	Fair	VIEENA	5	41	2	36	Overcast
JERUSALEM	12	54	4	39	Cloudy	WARSAW	7	45	1	34	Overcast
LAS PALMAS	21	70	17	63	Cloudy	WASHINGTON	10	50	7	45	Cloudy
LIMA	24	75	19	66	Cloudy	ZURICE	5	41	4	39	Rain
LISBON	17	63	12	54	Fair						

Readings from the previous 24 hours.

PEANUTS

B.C.



BLONDIE

BEETLE BAILEY

ANDY CAPP

WIZARD of ID

REX MORGAN

DOONESBURY

JUMBLE
THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

SAYGS

THERB

SNELET

CAFEED

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Print answer here: A ______

(Answers tomorrow)

Saturday's Jumbles: POWER TYING FERVOR HAPPEN
Answer: By the time a man is wise enough to watch his step, he's usually too old to go anywhere

DENNIS THE MENACE

"I'M NOT AFRAID OF A LITTLE THUNDER... BUT I AM AFRAID OF A LOT OF THUNDER!"

BOOKS

THE ALMIGHTY
By Irving Wallace. 403 pp. $15.95. Doubleday, Garden City, New York, N.Y. 11530.
Reviewed by Jonathan Yardley

LIKE many another toiler in the vineyards of schlock fiction, Irving Wallace is a specialist in howlers. Some readers, prowling through the pages of "The Almighty," will fasten upon this one: "Now, gathered around the coffee table, Armstead seemed almost benign." Others will take a liking to this: "Beside him, on a pad, lying on her back which spread and flattened her bare breasts . . ." But my choice sweeps the field: "Throughout her short life Victoria Weston had been a young person, and death had been far away."

The reader who chooses to approach a Wallace novel in search of these and other malapropisms, or Irvings, cannot but come away from it richer for the experience. Unfortunately, though, the cost of such satisfaction is very high: You have to read the book. This is not easy. A little bit of fractured syntax can be a lot of fun, but 400 pages of it add up to hard, exhausting work; a little bit of unintentional hilarity can brighten up the day, but 400 pages of it leave you gasping for breath. The occasional rewards offered by "The Almighty" are much smaller than the sheer labor involved in getting from the first page to the last.

The gentleman referred to in its title is one Edward Armstead, who at the age of 56 is at last freed by the death of his famous, domineering father to take over the billion-dollar Armstead communications empire — most specifically the New York Record. "I wanted the Record above everything else," Armstead says. "Having it would give me my chance to prove myself, prove I was worthy." But his vile daddy's will contains a zinger, a provision that requires Armstead to do the near-impossible if he is to maintain control of the newspaper — close a circulation gap between it and The New York Times of almost 350,000.

This, of course, he does, by most underhanded means; he stages a sensational story so that the Record can have exclusive coverage of it. But getting control of the paper is not enough for Armstead, nor is he content to wallow in the affections of his daddy's mistress. He wants more, more, more:

"Sex was not first-best but second-best.

"Power was first-best.

"Power to manipulate, control, dominate — everything, everyone, the world.

"It had come to him with clarity. . . . What to do, how to do it. It was dangerous, very dangerous, this bigger seduction, this rape of life. But he would attempt it. He would enjoy the ultimate orgasm."

And what, you may ask, is the ultimate orgasm? God-like power? But of course. To make the Record the mightiest newspaper in the world, Armstead hires his own terrorist gang and sets it on a series of missions that result in one exclusive story after another. Eventually he comes to realize that "it wasn't all that easy, playing God," but by then he is trapped in his own megalomania.

Who brings him down? Why, the doughty girl reporter, none other than the aforementioned Victoria Weston, who had burst into journalism with this ringing declaration: "To hell with the money. I'll live in one room in a ghetto, eat an apple a day, mend my own pantyhose — as long as I can wake up unable to wait for my job to begin, and go to sleep knowing I want more hours of the same. I want to be Nellie Bly. I want to be Annie Laurie. I want to be Dorothy Kilgallen." No kidding.

It takes her a ridiculously long time to do so, but as the pile of sensational Record exclusives grows ever higher the doughty girl reporter finally figures out that something weird is going on and applies her investigative skills to the exposure of her boss. This ultimately involves Air Force One and the president of the United States and a mad kamikaze pilot with a score to settle — and, just for good measure, the man she loves, who just happens to be aboard Air Force One at the climactic moment. You will not be surprised to learn that a happy ending is had by all with one notable exception.

"The Almighty" was written on automatic pilot and reads accordingly. Wallace begins at the beginning and goes on until he comes to the end — then he stops. His narrative is strict, relentless exposition, with not a shred of wit, subtlety or imagination. The only pleasures it affords are unwitting ones, and sooo enough even they pall. Four hundred pages of Irvings do not a novel make.

Jonathan Yardley is on the staff of The Washington Post.

Solution to Friday's Puzzle

BASH TRIGO KIPS
ERIE HELEN IDEA
DELA EVENT NOLI
SALVAGE TOGGLED
EYAL SPUD
STONER ONIONES
CAPO DAYOF MONO
ATEN EVICT OTTO
MARL NINTH FRET
PRAYING ETHERS
KEFS TWEE
STANDEE ROMANCE
PDLO DATER VERA
ANEW ETHEL EROS
TEES NOENO NOPE

BRIDGE

By Alan Truscott

AN old idea for effective bridge instruction has recently been revived with success. Special decks of cards are manufactured with marked backs, and the markings tell the dealer how to distribute the cards on a particular numbered deal. The deals are constructed to illustrate instructive points in bidding and play.

The third in a series of such decks has been prepared by a leading bridge teacher, Caroline Sydnor. It provides for 40 deals, which are fully explained in the accompanying book: "Bridge Made Easy: How to Win More Tricks." This won the American Bridge Teachers Association Award for the best teaching text written in 1981.

The package of book and cards should be helpful to both teachers and home groups. It is available for $8.50 from the author, 211 South Lee Street, Alexandria, Va. 22314.

In one of the deals from the book, shown in the diagram, South lands in four spades after West has opened with three hearts. When the dummy appears, South is pleased to find an ace. At match-point scoring he would mentally lament the failure to play no-trump, but can console himself with the thought that few pairs are likely to alight in three no-trump. It could be done with a take-out double and a three no-trump response by North.

But the 10 sure tricks in no-trump are rather less sure in spades. The bidding has made it highly probable that West has seven hearts, so the declarer should expect a void on his right. The safe road to success, as the author points out, is to duck twice in hearts. The third lead can be ruffed in the closed hand, and after trumps are drawn, the heart ace survives to provide a diamond discard.

This is undoubtedly the right play, with or without an opening three-heart bid, but South can survive as the cards lie if he makes the error of playing the heart ace. He will draw trumps, play his club winners and lead a diamond to the nine in dummy. East must lead from the diamond king or give a ruff-and-sluff, so the lost trick comes back.

NORTH
♠10743
♡A832
◇Q95
♣97

WEST (D)
♠—
♡KQJ10974
◇97
♣J862

EAST
♠982
♡—
◇KJ1032
♣Q10543

SOUTH
♠AKQJ65
♡65
◇A64
♣AK

North and South were vulnerable.
The bidding:

West	North	East	South
3♡	Pass	Pass	4♠
Pass	Pass	Pass	

West led the heart king.

RADIO NEWSCASTS

BBC WORLD SERVICE

News at 0000, 0200, 0300, 0400, 0500, 0600, 0700, 0800, 0900, 1100, 1300, 1600, 1700, 1800, 2000, 2100, 2200, 2300 GMT

[illegible]

VOICE OF AMERICA

Broadcasts on the hour and at 30 minutes after the hour during varying periods to different regions.

[illegible]

RADIO CANADA INTERNATIONAL

Suggested times are GMT

[illegible]

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هكذا من الأصل

SPORTS

Jets Deal Packers First Defeat, 15-13

United Press International

NEW YORK — Pat Leahy, who earlier missed two extra-point attempts and a field goal try, hit a 25-yard field goal to the final minute of the third period Sunday to lift the New York Jets to a 15-13 National Football League victory over the previously unbeaten Green Bay Packers.

With Green Bay leading, 13-12, the Jets took over on their own 48 and moved to the Packer 7-yard line on Freeman McNeil's 36-yard burst down the right sidelines.

Leahy silenced the boos from a crowd of 53,872 at Shea Stadium by calmly connecting from 25 yards out for the 15-13 lead.

Green Bay stopped New York at its 1-yard line with eight minutes left in the game and had a chance to win, moving to New York's 32. But the Jet defense, ranked No. 1 in the AFC, held. Jan Stenerud's 50-yard field goal attempt fell short with 4:56 remaining.

Bills 20, Colts 0

In Orchard Park, New York, Roosevelt Leaks scored two touchdowns, and Joe Cribbs ran for more than 100 yards to help Buffalo to a 20-0 shutout over Baltimore before only 38,985 fans.

The Colts (0-4) failed to enter Buffalo territory all day. The Bills (3-1) took a 3-0 lead with 19 seconds left in the first quarter when Efren Herrera kicked a 47-yard field goal. Leaks ran for the first of his two 1-yard scoring dives to end a 10-play, 69-yard drive with 7:33 left in the second quarter.

Zachary Dixon of the Colts fumbled late in the second quarter at the Baltimore 26, and Buffalo linebacker Isiah Robertson recovered. Two plays later Leaks followed over from the 1-yard line to give Buffalo a 17-0 halftime lead.

Cardinals 23, Falcons 20

In Atlanta, Ottis Anderson topped the 100-yard mark for the first time this season with 122 yards, including a 20-yard touchdown romp, to lead St. Louis to a 23-20 victory over Atlanta.

The Cardinals, who evened their record at 2-2, withstood a last-minute Atlanta drive in which Mick Luckhurst missed a 42-yard field-goal attempt with a second left to play. It would have sent the game into overtime.

The Cardinals snapped a two-game losing streak as Anderson and fullback Wayne Morris combined for a crunching ground attack that enabled St. Louis to control the ball for most of the second half. The Cardinals got their other touchdowns on a 2-yard run by Morris in the first period and a 1-yard sneak by quarterback Neil Lomax in the fourth period. Neil O'Donoghue added a 43-yard field goal in the third period.

Patriots 29, Oilers 21

In Foxboro, Massachusetts, Steve Grogan celebrated his first start in more than a year by throwing for three touchdowns, including a pair to Stanley Morgan, in leading New England to a 29-21 victory over Houston.

Grogan, who replaced Matt Cavanaugh in an effort to stimulate New England's lethargic offense, completed 10 of 16 passes for 195 yards, including scoring strikes of 63 and 24 yards to Morgan in the first quarter and a 14-yarder to Tony Collins in the fourth quarter.

Redskins 13, Eagles 9

In Washington, Joe Theismann passed for 259 yards, Mark Moseley kicked two field goals and the Redskins intercepted four passes by Ron Jaworski to help Washington stay unbeaten with a 13-9 victory over Philadelphia.

Theismann, who completed 14 of 28 passes, threw a 65-yard touchdown pass to Charlie Brown, who caught three passes for 124 yards. Moseley kicked field goals of 45 and 43 yards for the Redskins.

Jaworski threw a 44-yard touchdown pass to Harold Carmichael, and Tony Franklin kicked a 41-yard field goal for the Eagles.

Bengals 31, Raiders 17

In Cincinnati, Ken Riley raced 56 yards for a touchdown with the first of his three interceptions, and Ken Anderson passed and ran for two more scores as Cincinnati defeated the previously undefeated Los Angeles Raiders, 31-17.

Fullback Pete Johnson rumbled 129 yards in 23 carries and scored on a 1-yard touchdown to help the Bengals raise their record to 3-1. Anderson threw a 3-yard touchdown pass to rookie Rodney Holman and later scrambled 10 yards for another score. Jim Breech kicked a 35-yard field goal to round out Cincinnati's scoring.

Vikings 35, Bears 7

In Minneapolis, Tommy Kramer passed for more than 300 yards and five touchdowns, including three to Sammy White, to power Minnesota to a 35-7 victory over Chicago.

Larry Holmes, right, pounding his tired challenger, Randall (Tex) Cobb, in the ninth round of the World Boxing Council heavyweight championship bout in the Houston Astrodome.

Holmes Pounds Cobb to Win Decision

Judges Unanimous as Heavyweight Champion Keeps Title

By Michael Katz

New York Times Service

HOUSTON — Randall (Tex) Cobb used hypnosis as part of his preparation for Friday night's heavyweight title fight at the Astrodome, but Larry Holmes used a mesmerizing jab to win the 15-round bout by a unanimous decision.

The jab, setting up thunderous right hands and solid left hooks to Cobb's strong chin, made the fight practically a shutout for the champion. Holmes cut up the challenger's face, but he could not put Cobb down. Two judges scored it 150-135 for the champion, and the third judge had it 149-136, on the basis of 10 points for winning a round.

Only one judge, Larry Hassad of Los Angeles, gave Cobb a round — the seventh. The two others, Spider Bynum of Dallas and Chuck Minker of Las Vegas, scored the 15th round even. Otherwise it was all Holmes.

Holmes, easing toward retirement at the age of 33, was making the 13th defense of his World Boxing Council title, the first since he stopped Gerry Cooney on June 11 in the 13th round.

Before about 10,000 fans at the Astrodome, which can hold about 60,000 for boxing, the 217½-pound champion was an 8-1 "out" favorite — meaning no bets were accepted on Holmes — against Cobb, 27, a former Abilene Christian offensive lineman and former kick boxer.

Holmes has a 41-0 record, with 30 knockouts. The 234½-pound Cobb, who said he was still "in the embryonic stage," has a 20-3 record, with 18 knockouts. This was the first time Cobb had gone 15 rounds.

Holmes opened cuts on Cobb in the first five rounds. The constant jab and the accompanying overhand rights had the challenger bleeding around the left eye and from the nose.

Cobb was constantly moving forward and into punches. The champion was landing his best shots, but Cobb has one of the finest chins in heavyweight history. After taking a five-round pounding, he seemed to be tiring Holmes.

But that was not earning him points because Cobb could not land any blows. Holmes was able to load up his shots against the slower challenger, and in the fifth he finally made Cobb stand still and take a tiny step backward.

Cobb appeared tired by the eighth, and his left eye was closing.

Holmes added a new weapon, for him, for the game plan. Eddie Futch, his trainer, had him working on hooks off the jab. When Cobb began blocking some of the jabs, the champion switched to the hooks, and his right hand rarely missed.

But even after landing big combinations of six or seven punches, Holmes had to back away because Cobb kept moving forward.

The champion went for the knockout near the end of the ninth. More than a dozen of his best punches had Cobb shaking, but the challenger still would not topple.

Holmes was informed Saturday morning at breakfast that Cobb "would like to fight you every night of the week because eventually you'd get tired."

The champion laughed as he picked up his cup of coffee with swollen hands. "He told me he'd like to fight me in a phone booth," Holmes said. "I said, 'Why don't we just do it over the phone? Call me instead.'"

The man Holmes appeared most ready to fight was his former manager and longtime promoter, Don King. The champion was incensed when King, at the victory party, asked Holmes to reduce his purse, which already had been cut from $2.1 million to $1.6 million. Holmes has often agreed to take cuts to help out the promoter, but not this time.

"King said, 'I'm going to lose $700,000,' and I said, 'So what,' laugh about it,' and he got mad because I wouldn't give him the couple of hundred thousand," Holmes said. "My arms are sore, my hands hurt and my eyes are bloodshot, and he wants me to take a cut. To reduce my purse kind of makes me sick.

"I train hard, take the punches, risk my life every day, and they say, 'Please give some money back.' When they make money, they don't say, 'Here, take this.'"

King said he could not remember what he had said to Holmes Friday night. "I don't know anything about it," he said. "I must've been drunk."

King refused to comment further on purse cuts — he reduced Cobb's earnings from $700,000 to $500,000 — and instead speculated on Holmes's next fight. King and Holmes have been together since 1973 and have had frequent spats. The likelihood is that this one also will be patched up and King will then promote what might be the champion's last bout.

The opponent would be Lucien Rodriguez of France, the European champion. King said the site probably would be in Europe.

Holmes said he might fight "once more, twice more, three times more, you know how fighters are." But he said he was not interested in meeting the winner of the Mike Weaver-Michael Dokes bout Dec. 10 for the World Boxing Association version of the title or Greg Page, who got off the canvas in the second round Friday night before stopping James (Quick) Tillis in the eighth.

"I want someone easy," Holmes said. "I just read that Lorenzo Zanon was thinking of making a comeback. Maybe someone like him."

McEnroe Brilliant as U.S. Team Beats France for 28th Davis Cup Title

By Neil Amdur

New York Times Service

GRENOBLE, France — John McEnroe is the best doubles player in tennis. Teaming with Peter Fleming on Saturday, he again demonstrated his excellence during a 6-3, 6-4, 9-7 victory over Yannick Noah and Henri Leconte of France that clinched the Davis Cup championship for the United States.

The doubles triumph gave the U.S. team an unbeatable 3-0 lead, and rendered meaningless Sunday's reverse singles matches, in which Noah defeated Gene Mayer, 6-1, 6-0, and McEnroe beat Leconte, 6-2, 6-3.

The 4-1 victory over France was the 28th title for the Americans since Dwight Filley Davis donated the first International Lawn Tennis Challenge Trophy in 1900.

The 23-year-old McEnroe has played on four of those victorious American squads since 1978, and he ranked this series near the top.

"Each one is different and each one's nice in its own way," McEnroe said. "This was one of the best, if not the best, because we beat their team in front of a large crowd and played well, and I played on my worst surface and won the matches. Argentina, when we beat them last year in Cincinnati, was probably the most exciting final I was involved in. This and Argentina were definitely the two biggest."

Saturday's victory extended the McEnroe-Fleming unbeaten Davis Cup doubles record to 9-0. They lost only one set in the four matches this year that included India, Sweden and Australia.

As the winning team, the Americans will collect $200,000, and members of the French squad will split $100,000.

Despite a 4-hour 21-minute singles marathon Friday against Noah that left him aching, McEnroe was the dominant figure on the court Saturday. He never came within a point of losing his serve and served out every set. Even more impressive, of the 11 points that France won in McEnroe's 10 service games, McEnroe did not commit a single error.

"He's an extraordinary player," said Jean-Paul Loth, the French captain. "He's shown us these past few days he's an extraordinary player on all surfaces. The difference is, of course, that he plays extremely well at the important moments. He returns serve real well and we saw today how good he is at the net."

Arthur Ashe, the U.S. team captain, was impressed but not surprised by McEnroe's performance on the slow red-clay court. "This is normal," Ashe said. "The guy's the most talented player ever to play the game."

Noah and the 19-year-old Leconte began playing doubles together only this year. Leconte, whose style seems to be to hit hard, harder and hardest, still lacks the finesse, touch and consistency that are a requisite for doubles.

The Americans broke Leconte's serve on the seventh deuce of the fourth game. McEnroe served out the first set from 15-30.

The second set went on serve through the first eight games, although McEnroe again had to serve his way out of danger from 15-30 to 3-all. But from 3-4, with Fleming serving at 0-15, the Americans dominated the net, winning crisp volleying exchanges, and swept the last 12 points of the set.

French hopes improved after Fleming was broken for the first time in the second game of the third set. Noah saved a break point for 3-0, and McEnroe fell behind, 0-30, in the fourth game.

But then McEnroe simply took over, with an assortment of shots and off-speed pace that quieted the air horns, tambourines and rhythmic hand-clapping in the arena. Service winners. Reflex volleys off the hip and shoetops, sometimes from impossible positions. Half-volleys. Stinging, sharply angled forehand cross-court returns that set up easy putaways for Fleming at the net.

McEnroe Breezes on Sunday

McEnroe had no trouble Sunday against Leconte, an over-eager opponent who tried to kill every ball and as a result produced a string of mis-hits, United Press International reported.

Even when Leconte was within a point of breaking McEnroe's service in the seventh game of the first set and had the American sprawling far behind the baseline and scrambling to retrieve his racket, he hit a simple smash out.

Leconte never had another chance as McEnroe ran out an easy winner in one hour and 18 minutes.

Noah, similarly, demonstrated total mastery of his 50-minute match. Mayer, ranked seventh in the world, floundered, taking just 12 points from the first set.

"I've never ever thrown a match in my life," Mayer angrily retorted to a suggestion that he had not been trying.

Nebraska Wins; Arizona Stuns ASU

Oklahoma Bows, 28-24

New York Times Service

LINCOLN, Nebraska — Nebraska defeated Oklahoma, 28-24, Friday night to win the Big Eight Conference championship and the spoils that go with it: the Orange Bowl on New Year's Night.

The victory gave the Cornhuskers a conference record of 7-0 and an overall record of 10-1 with one game to play, next Saturday at Hawaii. In the Orange Bowl, Nebraska will play Louisiana State.

The victory was typical for Nebraska, which came into the game with the top-rated offense in the country — in total offense, in rushing and in scoring. The Cornhuskers gained 298 of their 409 yards on the ground and scored each of their four touchdowns on runs.

Mike Rozier, Nebraska's most prolific running back this season with 1,482 yards before Saturday, ran for 96 more, before he left the game early in the third quarter with a recurrence of an ankle injury. The fullback Doug Wilkening, who scored two touchdowns, gained 58 yards. And Roger Craig, who replaced Rozier and scored Nebraska's final touchdown in the third period, ran for 56 yards.

But it took an equally impressive performance by the Nebraska defense to preserve the victory when Oklahoma had chances to score late in the fourth quarter.

The Sooners, who had trailed by 21-10 at the half and had cut the lead to 28-24 in the third quarter, could not penetrate inside the Nebraska 34 on any of their three fourth-quarter possessions.

The first drive ended when Kelly Phelps, the Oklahoma quarterback, threw incomplete to the fullback Stanley Wilson on a fourth-and-6 at the Nebraska 34. The second ended in similar fashion, when Phelps threw incomplete to the wide receiver David Carter on a fourth-and-6 at the Nebraska 35. And the third ended, with 26 seconds remaining, when a Phelps pass from the Oklahoma 28, was intercepted by Scott Strasburger, Nebraska's left end.

UCLA Gains Rose Bowl

United Press International

TUCSON, Arizona — Tom Tunnicliffe passed for 92 and 65-yard touchdowns Saturday night in leading Arizona to a stunning 28-18 victory over Arizona State, shattering the Sun Devils' Rose Bowl hopes.

The defeat of Arizona State put UCLA to the Rose Bowl on New Year's Day against Michigan. The Sun Devils had to settle for a berth in the Fiesta Bowl in their home stadium against Oklahoma.

The victory raised Arizona's record to 6-4-1 overall, 4-3-1 to Pacific-10 Conference play, while Arizona State fell to 9-2 overall, 5-2 in league play.

The Wildcats took a 10-0 lead at halftime, then exploded for 16 points within the first five minutes of the third quarter. The Sun Devils attempted a comeback, but it ended with about three minutes remaining as Arizona recovered a fumbled punt return on the Arizona State 30.

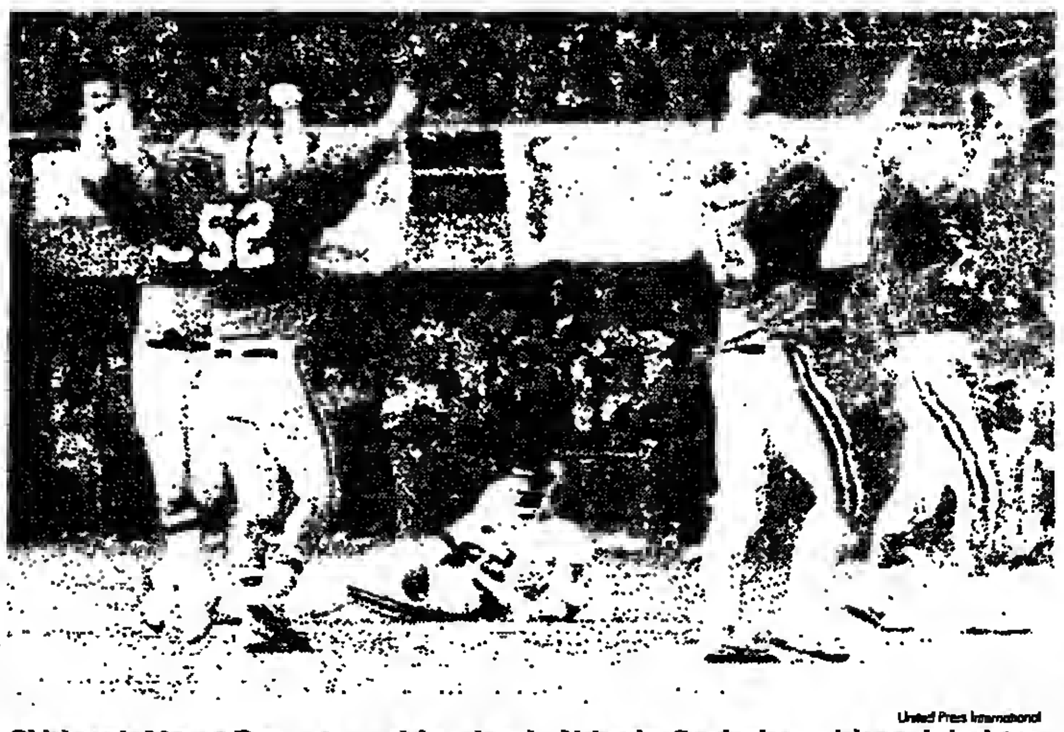
Tunnicliffe repeatedly riddled Arizona State's formidable defense. He teamed with running backs Brian Hollin for the 92-yard scoring pass in the second quarter, and with split-end Brad Anderson with a 65-yard toss, to make it 26-0.

Fifteen seconds into the third quarter Arizona scored the first of two safeties as running back Darryl Clack was pulled down in the end zone by nose-guard Joe Drake.

Arizona struck again three plays after the Arizona State free kick when Tunnicliffe beat a blitzing Sun Devil defense with the 65-yard toss to Anderson, who made a leaping, juggling catch before racing into the end zone.

The Wildcats scored again three minutes later on a 1-yard run by Hollin after Arizona recovered a fumble at the Arizona State 29.

The Sun Devils rallied to close the gap to 28-18 on two touchdown runs by Clack. The tailback scored on runs of three yards and one yard, and Arizona State added a field goal and a 2-point conversion.



Oklahoma's Marcus Dupree seems dejected as the Nebraska Cornhuskers celebrate their victory.

Georgia Ends Season Undefeated and Untied

New York Times Service

ATHENS, Georgia — Herschel Walker scored two touchdowns to lead Georgia to a 38-18 victory over Georgia Tech on Saturday as the Bulldogs completed their regular season as the only undefeated and untied major college football team in the United States.

It was the team's second perfect regular campaign in the last three seasons since Walker entered the University of Georgia. The junior tailback, playing before a home crowd of 82,122 at Sanford Stadium, carried for 162 yards Saturday.

Now Georgia (11-0), ranked No. 1 in the nation in the two wire service polls, will meet Penn State (10-1), in the Sugar Bowl on New Year's Day. This will be Georgia's third straight Sugar Bowl appearance as Southeastern Conference champion.

Since Penn State, which completed its regular season Friday with a 19-10 victory over Pittsburgh, is ranked No. 2 by both polls, the Sugar Bowl is going to be the showdown contest to decide the final No. 1 ranking for the 1982 campaign.

Walker made one of the most spectacular runs of his spectacular career Saturday the third time he touched the ball. Breaking through a slight opening in the middle of the line, he sprinted into the Tech secondary where he broke four tackles, twisted to his right and got free to run 59 yards for the first touchdown of the game.

Walker finished the first half with 84 yards rushing, moving him into third place among the leading career ground gainers in major college competition. Walker's 84 gave him 5,181 yards, putting him ahead of Archie Griffin of Ohio State (1972-75), who had 5,177 yards. The only players who have carried for more yardage in their careers than Walker are Tony Dorsett of Pitt (1973-76), with 6,082 yards, and Charles White of Southern California (1976-79), with 5,598. Walker finished the game with a career total of 5,259 yards.

Other games as reported by United Press International:

Tulane 31, Louisiana State 28

In Baton Rouge, Louisiana, Mike McKay threw for three touchdowns to lead Tulane to a 31-28 upset of Orange Bowl-bound Louisiana State in a matchup of traditional college football rivals. McKay's scoring passes went for two yards to tight end Jay Rhodes in the second quarter, five yards to wide receiver Wayne Smith in the third quarter and 31 yards to fullback Reggie Regginelli with five minutes left in the game. It was the first time since the 1938-39 season that Tulane has scored back-to-back victories over LSU.

Auburn 23, Alabama 22

In Birmingham, Alabama, Bo Jackson capped a 67-yard drive with a 1-yard touchdown run with 2:26 remaining to give Auburn a 23-22 victory over Alabama. The triumph ended a ten-year victory drought for Auburn over Alabama.

USC 17, Notre Dame 13

In Los Angeles, Michael Harper crashed into the end zone with 48 seconds remaining to lift Southern Cal to a 17-13 victory over Notre Dame. John Robinson, the third most successful active coach in the nation, announced earlier in the week he was leaving USC after seven seasons.

Memphis St. 12, Arkansas St. 0

In Memphis, Tennessee, Frank Smith grabbed a 32-yard touchdown pass, and Thomas Ingles kicked two field goals to lead Memphis State over Arkansas State, 12-0, breaking the longest losing streak in major college football.

Miami (Florida) 19, Cincinnati 13

In Miami, Robert (Speedy) Neal scored on a 4-yard run. Jeff Davis kicked four field goals and the Miami defense held off a late Cincinnati comeback bid to pace the Hurricanes to a 19-13 triumph.

Eskimos Overpower Argos, 32-16, For 5th Straight Grey Cup in CFL

United Press International

TORONTO — Warren Moon threw two touchdown passes and Dave Cutler kicked four field goals to break two career records Sunday, powering the Edmonton Eskimos to an unprecedented fifth consecutive Grey Cup championship with a 32-16 triumph over the Toronto Argonauts in the Canadian Football League classic.

Moon, a former University of Washington Rose Bowl hero, unleashed a stunning aerial attack in the first half, hitting wide receiver Brian Kelly with touchdown passes of 16 and 41 yards while compiling 261 aerial yards to give the Eskimos a 20-14 halftime lead.

But it was the Eskimo defense, which includes 20 players who have been together for all five championships, which dominated the second half by holding the Argos to only a safety in the final 30 minutes.

The victory, in strong winds and pouring rain before a capacity crowd of 54,744 at Exhibition Stadium, completed one of the finest season-long comebacks ever in the CFL.

Edmonton slumped to 3-5 and the Western Division cellar at midseason but came back with a nine-game winning streak capped by Sunday's victory.

It was Edmonton's sixth Grey Cup in the past decade. No other team has ever won more than three straight Grey Cups.

Moon, who had battled flu earlier in the week, was named the game's Most Valuable Player while Dave Fennell, a member of all six Edmonton champions, won both the outstanding defensive player award and the outstanding Canadian award.

Cutler, the Eskimos' 14-year veteran, kicked field goals of 38, 29, 49 and 33 yards to break the Grey Cup record for most career points and most career field goals.

A lucky bounce had been known in the CFL as an "Argo bounce" for almost three decades of frustration, but the Eskimos made a case for calling it the "Eskimo bounce."

The Eskimos took a 20-14 lead into the third quarter but it was a fortunate bounce that followed the drive that seemed to break the Argos' spirit.

The Eskimos drove to the Toronto nine, where Jim Germany fumbled at the 5-yard line and defensive back Harold Woods recovered for Toronto.

On the next play, Condredge Holloway hit running back Cedric Minter at the Argo 40 but the second-year pro fumbled and award-winning linebacker Dan Kepley recovered and returned to the 34.

Germany carried four times for 22 yards to move the Eskimos to the Argo 2-yard line, where he fumbled but recovered the ball to keep the drive alive.

Two plays later the former University of Ottawa running back Neil Lumsden crashed in for the touchdown to give Edmonton a 26-14 lead.

Cutler missed the convert but made up for the mistake six minutes into the fourth quarter when he booted a 49-yard field goal. He put the game further out of reach with a 33-yard field goal late in the game.

Cutler finished with 72 career points in Grey Cup games, breaking the old mark of 61 held by Don Sweet of Montreal. His four field goals gave him 18 in the annual classic, breaking Sweet's three-year-old record of 17.

Holloway and Moon showcased the passing attack in the first half, throwing for two touchdowns each and a combined total of 450 yards, but Moon was almost unstoppable, leading the Eskimos to scores on four of their six possessions and a 20-14 lead.

Cutler provided the margin of difference with a 38-yard field goal on the Eskimos' first drive of the game and another from 29 yards with three seconds left in the half.

Walker, Greer Lead All-Stars

Running back Alvin (Skip) Walker of the Ottawa Rough Riders and wide receiver Terry Greer of the Argonauts led the 26-player All-Canadian Football League team announced over the weekend, The Associated Press reported from Toronto.

Both Walker, the former Texas A&M star, and Greer, who played at Alabama State, were unanimous selections by the Football Reporters of Canada.

Walker led the CFL in rushing this season, gaining 1,141 yards on 210 carries, an average of 5.4 yards per attempt.

Greer caught 85 passes during the regular season for 1,466 yards and 11 touchdowns.

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SPORTS BRIEFS

Gerulaitis Beats Vilas in South Africa

JOHANNESBURG (AP) — Vitas Gerulaitis, the No. 2 seed, scored a 7-6, 6-2, 4-6, 7-6 victory over top-seeded Guillermo Vilas on Sunday to win the South African Open tennis tournament.

Gerulaitis trailed, 3-0, in the fourth set but won the next four games. Both players then held service to 6-6, and Gerulaitis took the match by easily winning the tie-breaker, 7-1.

On Saturday Vilas beat Kevin Curren, an unseeded South African, 7-5, 6-3, to reach the final. Gerulaitis defeated Andres Gomez in the other semifinal, 3-6, 6-1, 6-4.

Navratilova Triumphs in Australia

SYDNEY (UPI) — Martina Navratilova, the top seed, defeated Evonne Goolagong Cawley, 6-0, 3-6, 6-1, on Sunday to capture the New South Wales Open tennis championship.

Navratilova, who received $22,000 for the victory, had survived a tenacious Zina Garrison, 7-6, 6-2, on Saturday. Cawley reached the final with a 4-6, 6-1, 6-4 victory over Andrea Jaeger.

McEnroe, Lendl Head List in Antwerp

ANTWERP, Belgium (AP) — John McEnroe, Ivan Lendl and Björn Borg are among 29 tennis players expected to take part in the first European Champions' Championship starting here Monday.

McEnroe and Lendl are seeded 1-2, respectively, followed by Borg, Mats Wilander, Sandy Mayer, Yannick Noah, Eliot Teltscher and Buster Mottram. The final will be played next Sunday.

Sites Ratified for Soccer Finals

ROME (AP) — The European Football Federation has announced that the final of the Cup of Champions will be in Athens on May 25 and the final of the Cup Winners Cup in Goteborg, Sweden, on May 11.

The federation's executives met in Rome on Friday to ratify the sites for the two major European soccer tournaments. Artemio Franchi of Italy, president of the federation, also confirmed that the final stages of the 1984 European Championship will be played in Paris, Lyons, Marseilles, St. Etienne, Nantes, Nancy and Lens.

Hoch Repeats as Golf Victor in Japan

ISUBUKI, Japan (AP) — Scott Hoch, winner of this year's New Orleans Open, captured his second major golf title in Japan in two weeks, rallying for a one-stroke victory in the Casio World Open.

Hoch fired a final-round, two-under-par 70 for a six-under total of 282 in overcoming the third-round leader, Tsuneyuki Nakajima of Japan. Two weeks ago, Hoch won the Pacific Masters tournament.

Oroño Regains Super Flyweight Title

SEOUL (AP) — Rafael Oroño of Venezuela regained the World Boxing Council super flyweight championship Sunday night by stopping the champion, Kim Chul Ho of South Korea, in the sixth round.

Oroño took back the title he lost to Kim on Jan. 24, 1981 in Venezuela. The U.S. referee, Rudy Ortega, stopped the fight after 38 seconds of the sixth round of a scheduled 15-rounder. The battered Korean, with one knee pressed to the mat, appeared helpless and unable to continue.

U.S. Horse Wins Japan Cup by Neck

TOKYO (UPI) — Half Iced, a three-year-old colt from the United States ridden by Canadian-born Donald MacBeth, spurted on the home stretch Sunday to win the $536,000 Japan Cup horse race in Tokyo.

A neck behind was All Along of France, ridden by Gary Moore, followed by April Run, also from France, ridden by Cash Asmussen.

Half Iced clocked two minutes, 27.1 seconds for the 2,400-meter run at the Tokyo Race Course. It won first prize money of 70 million yen ($264,150).

Strand Takes Slalom in Ski Series

BORMIO, Italy (AP) — Stig Strand won the men's slalom race of the Ski World Series here Saturday. It was the first major international triumph for the 26-year-old Swede.

Ingemar Stenmark and Phil and Steve Mahre, rated as the world's top slalomists, passed up the World Series to concentrate on preparations for the opening of the World Cup season next week.

On Sunday, Max Julen led the Swiss team to victory, gaining decisive points in the men's parallel slalom. Julen defeated Jacques Luethy in an all-Swiss final, and gave Switzerland a winning total of 121 points in the nation standings of the one-week competition, compiling results of six men's and women's races.

LANGUAGE

Farewell My Lovely

By William Safire

WASHINGTON — As the collect telephone call comes to an end, the kid in college says, "Lay-tuh!" The parental voice replies, "Buh-bye."

The rich and varied language of farewells is thus advanced. In olden times, a few years ago, the collegiate call would be "See you later, alligator." From this neo-Cockney rhyming source, by the natural process of shortening, *seeya* became popular; recently, the end of that first phrase, *later*, has come into its own.

Meanwhile, *goodbye* has been changing. An erosion of the *d* changed that word to *g'bye* or *guh-bye*; then the baby-talk *bye-bye* emerged as acceptable in adult contexts (This usage, along with the similar *ta-ta for now*, conformed to the French psychology in eschewing *adieu* — which means "That's it, Gaston, mail me *le chat*" — and in adopting the more hopeful *au revoir*, or "until we see each other again.")

So long is no longer so long, having been clipped to a slangy *s'long*. The new, rapid-fire telephone closing, which is not really part of a dialogue, is "OK fine thanks you too bub-eye," fired staccato at the person on the other end, who is simultaneously saying, "Havva good one take care bub-eye."

This rise of what cryptographers would call "the leave-taking burst" does not necessarily mean that Americans are becoming less gracious. The Southern style offered by the person who is being left can still be heard: "Y'all come see us again, heah?" and its shortened form, "Y'all come," are in use, as is "Hurry back." In New England, the same gentility can be found in "Don't be a stranger, now."

Although the leave-taker's Spanish *adios* ("to God") and the leave-taker's *vaya con Dios* ("go with God") continue to show strength, the *have* construction is more prevalent: *Have a good day* and its derivative, *Have a good one*, are forms of benediction, although *Have a special life* is an example of farewellian overkill. *Peace* is acquiring political overtones.

The leave-taking warning is strong: *Take care* is as warm as *Take off* is cold, and *Take it easy* along with *Take it slow* are in heavy use. The last of those has been updated with a rhyme: *Take it slow, bro*, which is heard more among the brothers than the sisters. *Behave yourself* is an affectionate admonition, which has appeared recently as *Stay clean*. *Be good* has its users, and occasionally one hears the more resigned *If you can't be good, be careful*.

The sympathetic farewell is undiminished: *Hang in there* vies with *Hang tough* and *Hang loose*, and *Walk light* may cheer up the overweight, but the imperative goodbye is now considered insulting: *Call me*, *Drop me a line* and *Keep in touch* are put-downs, and *Stay cool* is as ill-received as the old *Don't take any wooden nickels* or the military *As you were*. The ultimate insult in farewells is the airy *Let's have lunch*.

The reminiscent goodbye should not be forgotten: *It's been a gas* is out of style, but *It's been real* remains a reality. Variant forms include *This is a memory* and the more time-consuming but lilting *It's been nice, it's been sweet, but now it's time to hit the street.*

Foreign borrowings by Americans are led by the British *cheers*, which has been moving from a toast to a farewell, and the Italian *ciao*, modified to the rhyming hybrid *ciao now*, a favorite of brown cows.

The hipster lingo that once featured *Plant you now, dig you later* has degenerated into a brief *Digya*, but was reborn under *See you later when your hair gets straighter*, an obvious updating of *See you later, alligator* and its ritual response, *In a while, crocodile*.

Among the young, who are always leaving and who constantly need new-phrase fixes, there seems to be a growing desire to blame any leave-taking on external forces. *Gotta go* is the most frequent form of denying any desire to leave, but more imaginative examples are *Gotta bail*, presumably from "Must bail out of the aircraft," *Gotta cruise* and *Gotta blaze* (auto usage), *Gotta split* and *Gotta jam*, which may rooted in *jam session* or a desire for a peanut-butter lubricant. *Catch you on the flip side* is an updating of *Catch you on the rebound*, but the most uncertain farewell is a hazy *Whenever*.

The most interesting new expressions among departing youth can be grouped under "the declaratory future": While still present in body but mentally long gone, the youth frantically grabbing a glass of juice and digging under cushions for a misplaced book cries, "I'm outta here!"

New York Times Service

Galveston: Gingerbread and Dreams

By Robert Reinhold

New York Times Service

GALVESTON, Texas — To look at George Phydias Mitchell, you can hardly tell that he is worth nearly half a billion dollars, that he has impeccable taste in restoring Victorian buildings or that he is the new patron saint of this old port.

Short, bald and plain, he looks every inch the son of an impoverished Greek immigrant that he is. Sixty-three years after he was born on this isolated barrier island, going on to make his fortune in petroleum and real estate, Mitchell and his wife, Cynthia, have returned — to help retrieve it from decades of decay, say some; to exploit it, say others.

His personal worth is said to exceed the assessed valuation of this city of 62,000, and his emergence as a key figure here is only the most obvious symbol of the changes that have begun to bring back to life the city that was once the cultural and financial capital of Texas. It has found its redemption in proving that historic preservation is not only aesthetically pleasing, but profitable.

Galveston's revival has been spurred by the wealth generated by Houston, 45 miles to the north, whose expansion eclipsed Galveston two generations ago. Now, affluent Houstonians are restoring gingerbread Victorian homes here, and expatriates such as Mitchell are returning with money and ideas. Already the Mitchells have bought seven buildings for restoration along the Strand, whose iron-front commercial buildings were once the Wall Street of the Southwest.

As the Mitchells and others move in, the influence so long exerted by Galveston's old families, mainly the Moodys and the Kempners, is waning. "Many of us who left the island and fought in high-pressure arenas like Houston see opportunities that the locals do not see," said Mitchell, who heads the Mitchell Energy and Development Corp.

Harris L. Kempner Jr., the 42-year-old investment banker whose forebears made fortunes in banking, sugar and cotton financing in the 19th century, disputes suggestions that his and other old families deliberately let the city lie fallow to preserve their control. Indeed, the Kempner and Moody foundations have spent millions on historic preservation.

The Strand, now lined with shops and galleries, has begun to attract a breed of visitor a cut above the bedraggled Houstonians who flock on weekends to Galveston's seedy beachfront, leaving behind trash but little money. Meanwhile, tonnage passing through the port of Galveston is up 30 percent over last year, while Houston's port lies in the doldrums.

But Galveston is still a poor place, isolated and little affected by the energy boom that has lifted most other Texas cities. It is nearly 50 percent black or Hispanic, and those minorities have thus far benefited little, says Carl Kelly, a black leader.

A century ago Galveston was a major city with the finest deep-water harbor west of New Orleans. But a hurricane in 1900 all but destroyed the city and killed 6,000 people. Then Houston dug a ship channel, allowing shippers to bypass Galveston. The city thrived a bit longer on gambling and prostitution, but that too was shut down in 1957.

Now, however, newcomers are changing things, people such as H. Lee Trentham, a Tennessee-born chemical engineer who made a fortune in Houston and who has done some of the finest restorations here. Or Peter Brink, a 43-year-old Harvard-educated lawyer who came a decade ago to run the Galveston Historical Foundation and has spearheaded the preservation movement.

Politically, the difference between the new and the old Galveston is personified by Janice R. Coggeshall and Eugene Letsos. Both are City Council members, and they are widely expected to run against each other for mayor should Mayor Gus Manuel step aside.

Mrs. Coggeshall is a Wellesley graduate from Rochester, New York, whose husband teaches at the medical school. An earnest woman who wears denim skirts, she talks about developing a "vision" for Galveston, for beautifying the town, and she has wide support among newcomers.

Letsos, the size of an adult bear, has slicked-back black hair and has a huge gold ring encrusted with diamonds on each hand, a $9,000 Rolex watch on one wrist and a chunky gold bracelet on the other. He sneers at Mrs. Coggeshall. "She's from up someplace," he said. "She's not a real Galvestonian." He says he puts "progress" ahead of Mrs. Coggeshall's environmental concerns.

The problem with Galveston, in the view of Edward L. Protz, a former official of the Moody Foundation, is that it lacks any long-range plan and tends to be dominated by short-run business interests. "By default we have failed to gear toward the more profitable tourist trade," he said. "We've got the natural assets to build a Texas Riviera, but instead we have proliferation of cheap time-share condominiums."

The threat of being swallowed up by Houston's widening economic net is the biggest danger, says Brink of the Historical Foundation. "The danger is that if we are not strong enough, the franchise strip developers will come," he said. "We might become just a strip suburb."

Two aspects of Galveston: A restored Victorian house and a modern insurance building.

TOKYO POSTCARD

The Gaijin Revue

By Todd R. Eastham

United Press International

TOKYO — One word that foreigners in Japan learn quickly and never forget is *gaijin*. That's what the natives call anybody and everybody who isn't Japanese.

"It's like virginity but you can't lose it," said Michael Reid, a singer and songwriter who has lived in Japan for four years.

Reid and Stuart Atkin, a writer-actor who has lived here for eight years, recently put together a musical comedy revue based on their experiences as *gaijin* in Japan.

"Our Japan," produced sporadically on a shoestring budget in Tokyo and other parts of the country, opens with a comic discourse on "Being a Gaijin."

A demon mask from the Japanese theater is used to illustrate the native perception of the mysterious Occidental.

"You know he's an alien because he has a very red face, very big nose and he's very hairy," explained Atkin, a 33-year-old Englishman who bears some resemblance to his own description.

Gaijin wear their shoes not only in the house, but also in bed, added Reid, 32, another English expatriate.

The tongue-in-cheek revue also looks at two prominent *gaijin* who have visited Japan — Margaret Thatcher ("Mrs. Sachaa") and Paul McCartney.

Of the British prime minister's recent visit, Reid sings:

Oh Land of the Rising Sun
Statesmen go, stateswomen come.
Serve them sushi and hot green tea
And show them round the factory.

McCartney's ill-fated trip last year, when he was deported for attempting to smuggle marijuana past customs, inspired another ditty to the tune of "Eleanor Rigby":

All this marijuana, where do it all come from?
All this marijuana, where do it all belong?
. . . a pretty disappointed people.

The review touches on many of the more amusing and endearing aspects of life in Japan.

"Endless Rub" — a play on the Japanese pronunciation of "Endless Love" — is about an institution quite popular with *gaijin* men, the Turkish bath.

One called "Zen Singalong" — "Keep your eyes closed but please don't nod off or I'll hit you with my stick" — pokes gentle fun at Zen Buddhism.

Another laments the difficulties in reconciling the eternal tease of Japanese advertising with the rather puritanical realities of Japanese life. It goes something like this:

Bright lights, red lights, all over Tokyo
Oh what a way to go.
. . . Boogie down with the disco crowd
Cheeko to cheeko is not allowed.

Another called "Oishii (Oh is she) the Girl?" makes brilliant if slightly risque use of Japanese words to create English sentences. "Oishii" is the word Japanese use to describe a tasty meal.

Other songs and sketches like "My Local Barber" — which tells of a lonely pudding bowl artist who lost all his business to a European-style stylist up the street — are poignant and really quite beautiful.

But Atkin might have spared the audience his attempt at a comic *haiku* — a traditional Japanese verse of three unrhymed lines about nature:

Old frog leaps into
New pond. Whap. We-ee-ee-ee.
Spl-lat. No water.

The performance attracts as many Japanese as it does foreigners, and few seem to take offense.

"We're not trying to be nasty," said Atkin. "We're just very tongue-and-cheek about everything. On the whole, the reaction is very favorable."

South Africa Frees 34 Who Raided Seychelles

United Press International

JOHANNESBURG — Thirty-four former mercenaries have been released early from jail, almost a year to the day after their hijacking of a Boeing jetliner from Seychelles Mahe airport to escape after botching a coup bid.

The 34 were members of a band organized by Michael Hoare, a mercenary, in an attempt to overthrow the Seychelles government of President Albert René on Nov. 26, 1981. They were released Saturday for good behavior after serving four months of their six-month sentences. Mr. Hoare was not released. Seven others involved are still serving terms of from 11 months to five years.